

# **United States Pacific Command**



## **Asia-Pacific Economic Update**

**DISTRIBUTION STATEMENT A**

Approved for public release;  
Distribution Unlimited

**April 1998**

19980618 036

## FOREWORD

For years America and Asia have reaped vast benefits from the Asia-Pacific's growing prosperity. The economies of the region have emerged as increasingly lucrative markets for American trade and investment. Expanding wealth and opportunity in many Asia-Pacific countries have facilitated a transition to greater openness and freedom, in turn making the region more stable and secure. Asian immigrants and visitors have made invaluable contributions to America's intellectual and cultural life. The multifaceted links of interdependence have helped to ensure that the Asia Pacific region's boom has been America's boon.

The financial crisis currently engulfing much of the region has exposed the underside of this interdependence. Like dominoes, one economy after another has fallen victim to capital flight and sagging investor confidence. Financial experts with whom we consult expect the United States will not escape the turmoil unscathed; American exports to the region have slumped, and economic growth will likely slow as well.

Although economic and political in origin, the crisis carries important security implications, both for the region and for American interests. Economic hardship in countries accustomed to rapidly growing incomes could raise the specter of internal unrest; tensions in multi-ethnic societies—abundant in Asia—could be exacerbated; military procurement programs important to deterrence are being scaled back; and America's allies could find themselves less able to provide critical host-nation support.

These events and prospects drive home the importance of continued American engagement with the Asia Pacific region. More than ever, our military presence, together with the cooperation of our allies and friends throughout the region, deters conflict and underwrites the stable conditions upon which future economic development depends. America's firm commitment to the region during this time of uncertainty will help to ensure that Asia emerges from its crisis stronger and more secure than ever before—a development that would also bring renewed benefit to the American people.

The U.S. Pacific Command, with an Area of Responsibility encompassing 43 countries and more than 56% of the world's population, attaches great importance to understanding the critical linkages between economics and security in the Asia Pacific region. We are pleased to publish the 1998 edition of the USCINCPAC Asia-Pacific Economic Update as a military perspective on the interdependence of economic trends, regional security, and common interests in the Asia-Pacific region.



J.W. PRUEHER  
Admiral, U.S. Navy  
Commander in Chief  
U.S. Pacific Command

## ACKNOWLEDGMENTS

This report was prepared by the U.S. Pacific Command's Strategic Planning and Policy Directorate and the Asia-Pacific Center for Security Studies (APCSS). The views, opinions, and findings contained in this report should not be construed as an official USCINCPAC position, policy, or decision unless so designated by other official documents. Principal authors and points of contact for this report at the Asia-Pacific Center for Security Studies are Dr. Lee H. Endress, Director, College of Security Studies (808) 917-8953; Mr. Chris Johnstone, Ms. Jin Song, and Mr. Paul Smith, research fellows; and at the Strategic Planning and Policy Directorate, Mr. Mark G. Harstad, Regional Strategy and Policy Division (808) 477-0811.

The U.S. Pacific Command gratefully acknowledges the contribution of several individuals who made presentations at an Economics and Security Conference, co-hosted by the U.S. Pacific Command and the Asia-Pacific Center for Security Studies, January 12-13, 1998: Dr. Arthur Alexander, *President, Japan Economic Institute*; Dr. Victor Cha, *Professor, Georgetown University*; Mr. Thomas Gallagher, *Managing Director, Lehman Brothers*; Mr. James Kelly, *President, Pacific Forum/CSIS*; Dr. Leroy Laney, *Senior Vice President and Chief Economist, First Hawaiian Bank*; Mr. Robert Manning, *Senior Fellow, Council on Foreign Relations*; Dr. David McClain, *Professor, University of Hawaii*; Dr. Charles Morrison, *Chair, U.S. Consortium of APEC Study Centers, East-West Center*; Dr. Marcus Noland, *Senior Fellow, Institute for International Economics*; Dr. Leif Rosenberger, *Professor, Army War College*; and Dr. Robert Sutter, *Senior Specialist, Congressional Research Service*.

# ASIA-PACIFIC ECONOMIC UPDATE

APRIL 1998

## TABLE OF CONTENTS

|   | <i>Page</i> |
|---|-------------|
| <b>EXECUTIVE SUMMARY</b>                            | v           |
| <b>SECTION I. INTRODUCTION</b>                      |             |
| 1 Economic Turbulence in Asia                       | 3           |
| <b>SECTION II. ECONOMIC DYNAMICS</b>                |             |
| 2 Regional Economic Growth                          | 11          |
| 3 Asian Trade                                       | 15          |
| 4 Foreign Investment and Aid                        | 21          |
| <b>SECTION III. ECONOMICS AND SECURITY LINKAGES</b> |             |
| 5 Energy and Security                               | 29          |
| 6 Shipping and Commerce                             | 33          |
| 7 Defense Spending and Arms Trade                   | 39          |
| <b>APPENDICES</b>                                   |             |
| A Multilateral Organizations                        |             |
| B Data Tables                                       |             |
| C Glossary  |             |

## NOTE

The information in this report delimits Asia-Pacific economies as Japan, Australia, New Zealand and, as defined by the International Monetary Fund (IMF), Asian Developing Countries. The Asian Developing Countries, which are collectively referred to as Developing Asia in the text, are listed below. The U.S. Pacific Command's Area of Responsibility (AOR) also includes North Korea, Mongolia, and three additional islands in the Indian Ocean (Comoros, Madagascar, and Mauritius), but does not include Afghanistan or Pakistan. In 1996 Seychelles was apportioned to the U.S. Central Command AOR, although fiscal responsibility for exercises and security assistance remained with the Pacific Command through September 1996.

### IMF's Asian Developing Countries

|                            |                  |                       |             |
|----------------------------|------------------|-----------------------|-------------|
| AFGHANISTAN <sup>1</sup>   | INDONESIA        | MONGOLIA              | SOLOMON IS. |
| BANGLADESH                 | CAMBODIA         | NAURU                 | SRI LANKA   |
| BHUTAN                     | KIRIBATI         | NEPAL                 | THAILAND    |
| BRUNEI                     | KOREA, SOUTH     | NEW CALEDONIA         | TONGA       |
| BURMA (MYANMAR)            | LAOS             | PAKISTAN <sup>1</sup> | TUVALU      |
| CHINA, P.R.                | MACAU            | PALAU (BELAU)         | VANUATU     |
| FIJI                       | MALAYSIA         | PAPUA NEW GUINEA      | VIETNAM     |
| FR. POLYNESIA              | MALDIVES         | PHILIPPINES           | W. SAMOA    |
| HONG KONG SAR <sup>2</sup> | MARSHALL ISL.    | SAMOA, AMERICAN       | TAIWAN      |
| INDIA                      | MICRONESIA, F.S. | SINGAPORE             |             |

For the purpose of presenting the historical trends in this report, the economies in the above table comprise the Asian Developing Countries, unless otherwise noted. This portrayal will change in future editions of this report. For some of its statistical reports beginning in 1997, the IMF extracted the Four Asian Newly Industrialized Economies (NIEs: South Korea, Singapore, Taiwan, and Hong Kong) from this grouping and reclassified the NIEs as advanced economies. Also, South Korea was given industrialized country status when it was admitted to the Organization for Economic Cooperation and Development (OECD) in 1997.

Occasional reference is made in the text to the G-7 countries. The G-7 refers to seven major economies: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

---

<sup>1</sup> Not in USPACOM AOR.

<sup>2</sup> Hong Kong Special Administrative Region (SAR) retains status as a customs territory separately from China and is reported as a distinct economy by IMF.

## EXECUTIVE SUMMARY

The events of 1997 demonstrated in graphic terms the linkages between economic development and regional security in the Asia Pacific region. What started as a collapse of investor confidence in Thailand during the early summer quickly took on a political and security dimension as the crisis rapidly spread to other parts of the region. The fallout from the crisis has raised a number of concerns for U.S. security and defense planners.

- Many governments in the region derive political legitimacy from the rapid economic growth they have enjoyed over a period of decades. An end to that growth could raise the specter of political instability, particularly in Indonesia, where a period of leadership transition is already underway. Should the crisis spread to China, these concerns intensify dramatically.
- South Korea's economic difficulties complicate reunification and could undercut Seoul's ability to meet its financial obligations to the North under the agreement that ended Pyongyang's nuclear program in 1994—possibly renewing tensions on the peninsula.
- America's allies—particularly South Korea and Japan—will face tighter economic constraints in providing critical host nation support for forward deployed American troops.
- Governments across the region may scale back military modernization programs and reduce new procurement, hurting sales for U.S. defense contractors and possibly undermining critical capabilities. Austerity programs also impact on military-to-military activities.

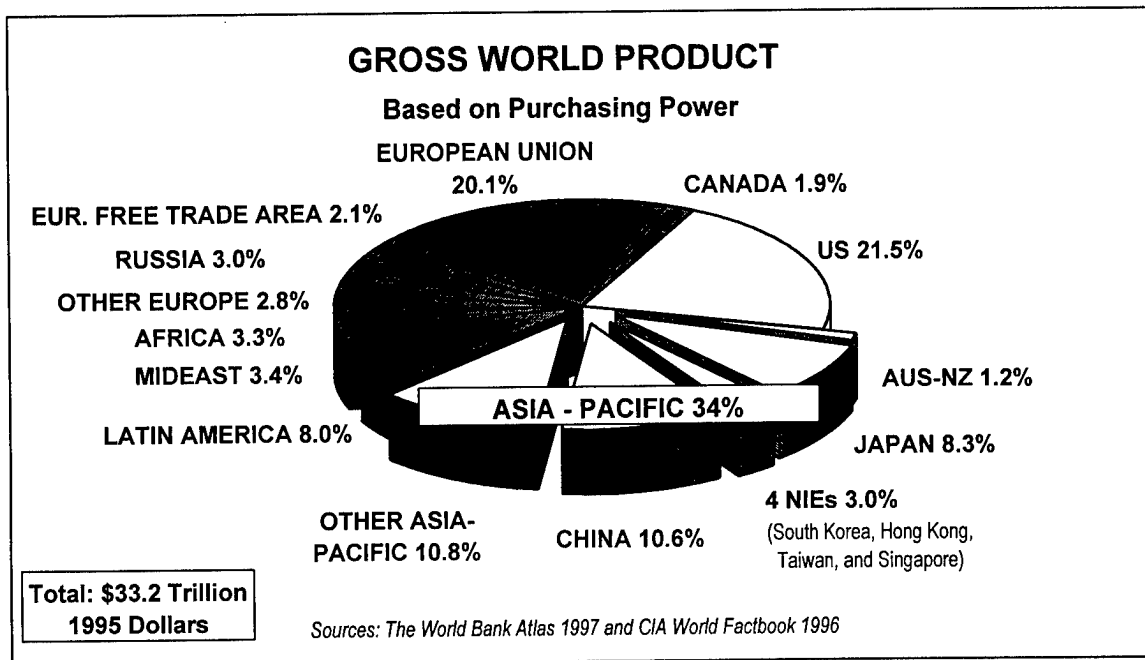
This year's *Economic Update* attempts to contribute to a Pacific Command perspective on the economic challenges confronting the Asia Pacific. Section I provides an overview of the causes and consequences of the economic crisis, points to some of the political and security implications, and discusses the role of U.S. policy in helping the region to manage the challenges ahead. Section II offers a description of dynamic growth in the Asia-Pacific region over the last quarter century and a summary of trade and investment, which continue to be robust despite the recent turmoil. Section III turns to issues that form the nexus between economics and security in Asia, including energy, shipping, defense spending, and the arms trade. Also included is an appendix that contains extensive economic data on the countries of the region. A central conclusion of the report is that Asia Pacific economies retain fundamental strengths that should enable them to prosper again in the near future. Indeed, many will emerge from the crisis stronger and more dynamic than ever before.

Previous editions of the *Economic Update* have focused on the region's dynamism and promising future. This year's report is unavoidably more sober, given the severity of the economic crisis and the necessity of politically painful reforms in many Asian countries. One central theme in the report remains unchanged, however. America continues to have an overriding interest in the Asia Pacific region's future stability and prosperity. As a Pacific power, the United States cannot choose to engage Asia only when times are good; our interests dictate that we must remain involved even when times are less certain. Events over the last year may have rocked the Asia Pacific's economic foundation, but America's commitment to preserving regional security remains unshakable.

## REGIONAL ECONOMIC GROWTH

Over the last quarter century, the Asia-Pacific region has exhibited the fastest economic growth in history. This economic growth has been fostered by market-oriented economic policies on the part of individual countries and a secure regional environment of international order promoted by decades of U.S. engagement in Asia. However, the recent economic turbulence in Asia shows that long-term growth also depends on development of mature institutions, especially in the financial sector.

Figure 1



Today, the Asia-Pacific region is home to the world's second and third largest economies—China and Japan. The total size of the Asia-Pacific region's output rivals, and by some measures exceeds, those of the United States and the European Union (EU). By 1995, the Asia-Pacific region's share was 29% of world output when measured on an exchange rate basis and was 34% of world output when measured on a Purchasing Power Parity (PPP) basis.

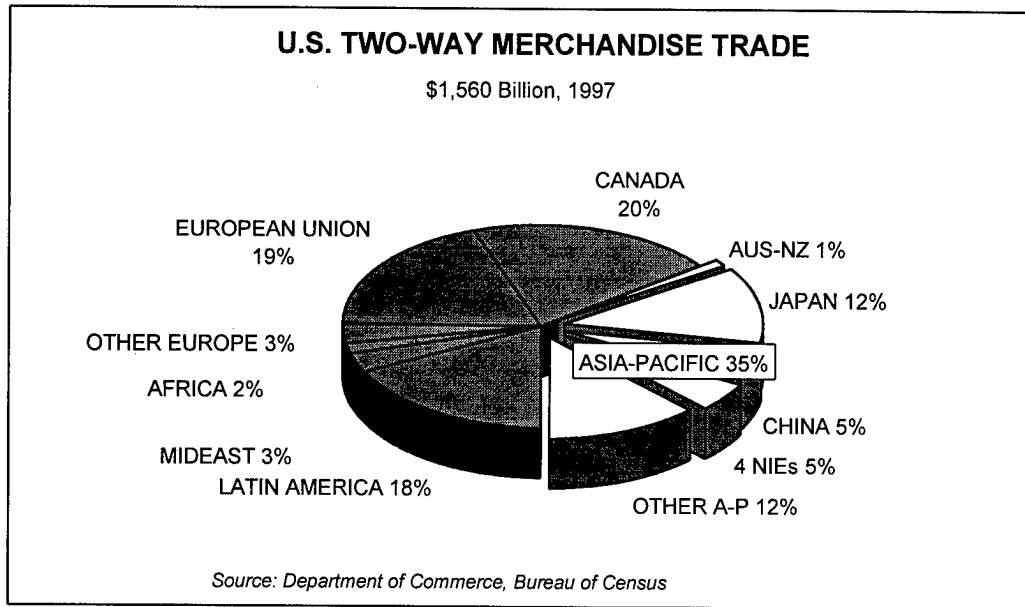
The economic relationship between the United States and countries of the Asia-Pacific region has become vital to America's security and economic well-being. America benefits not only from international order and stability, but also from increased trade and investment.

The continued growth of Asian economies and the expansion of trade between America and the Asia-Pacific region will deepen our economic interdependence, with its attendant benefits and problems. Managing interdependence will require enhanced economic cooperation and increased attention to diplomatic and military security relations in the region.

## ASIAN TRADE

International trade has become an increasingly important component of the American economy, as reflected in the rising share of exports and imports in the U.S. economy. The ratio of imports to U.S. GDP rose from 8% in 1975 to 13% in 1997, while the export ratio rose from 8% to 12% over the same period. An estimated one-third of total American economic growth over the past three years is due to the growth of exports, although the ongoing financial crisis will adversely impact American exporters.

Figure 2



As the Asia-Pacific's piece of the global economy has expanded, its importance to the American economy has grown apace. The region accounted for an estimated \$548B—or 35%—of total merchandise exports and imports in 1997. Although most public attention focuses on America's lasting trade deficits with the region, trans-Pacific trade ties remain on balance mutually beneficial. Developing Asia, Japan, and the United States are simultaneously important sources of imports and major markets for exports. These linkages give all countries in the Asia-Pacific a major stake in preserving a generally open trading system, although trade frictions do present a threat to the health of America's relations with the region that should not be minimized.

The United States, Japan, and the rest of the Asia-Pacific region are mutually dependent on open trade. All inject significant amounts of goods and services into the global trading system. The United States produced 12% of the world's exports in 1996, while Japan produced 8%, and the rest of the Asia-Pacific region produced 19%.

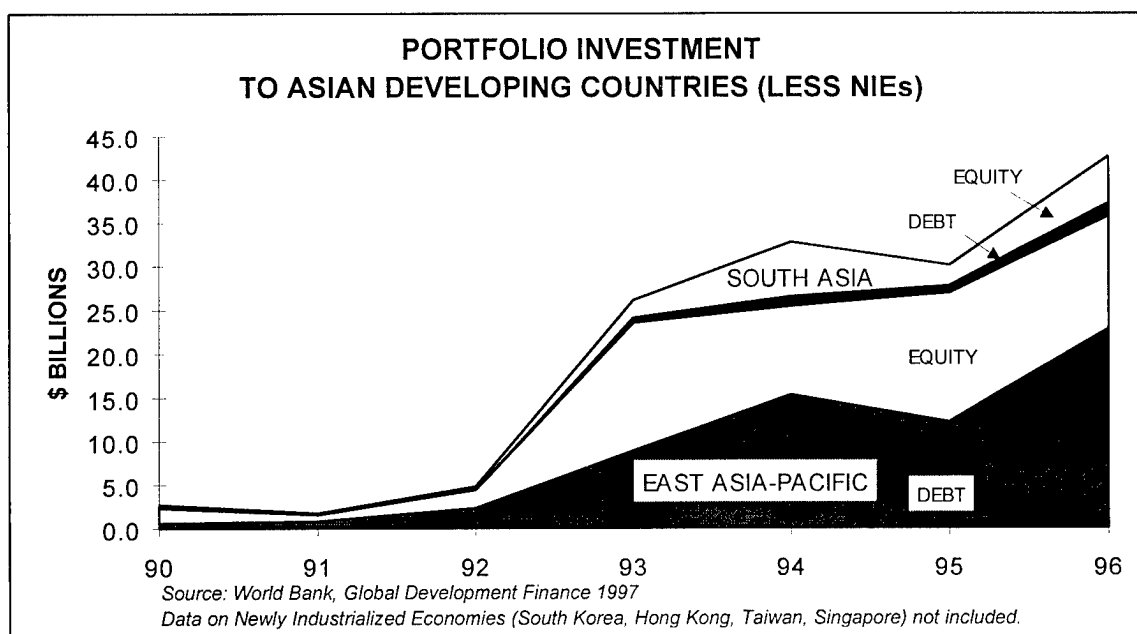
The openness of the global trading system upon which Asian economies are so highly dependent has led to increased reliance on multilateral trade institutions. The World Trade Organization (WTO), the Asia Pacific Economic Cooperation forum (APEC), and other multilateral institutions will be quite visible in future years as Asia-Pacific economies seek to promote their own economic growth and welfare.



## FOREIGN INVESTMENT AND AID

Investment and aid flows represent another force integrating the Asia Pacific and tying the region to the global economy. Private capital flows into the region primarily in two ways: through portfolio investment—i.e., foreign purchases of Asia Pacific stocks and bonds—and direct investment—the establishment, acquisition or expansion of a business enterprise by a foreign concern. Portfolio investment has expanded dramatically in the region since 1993, adding further fuel -- and stress -- to the engine of Asia Pacific growth. Foreign aid, although in decline worldwide, also continues to be an important source of capital for the region; Japanese assistance in particular continues to support the construction of a significant portion of the region's large-scale infrastructure needs.

Figure 3

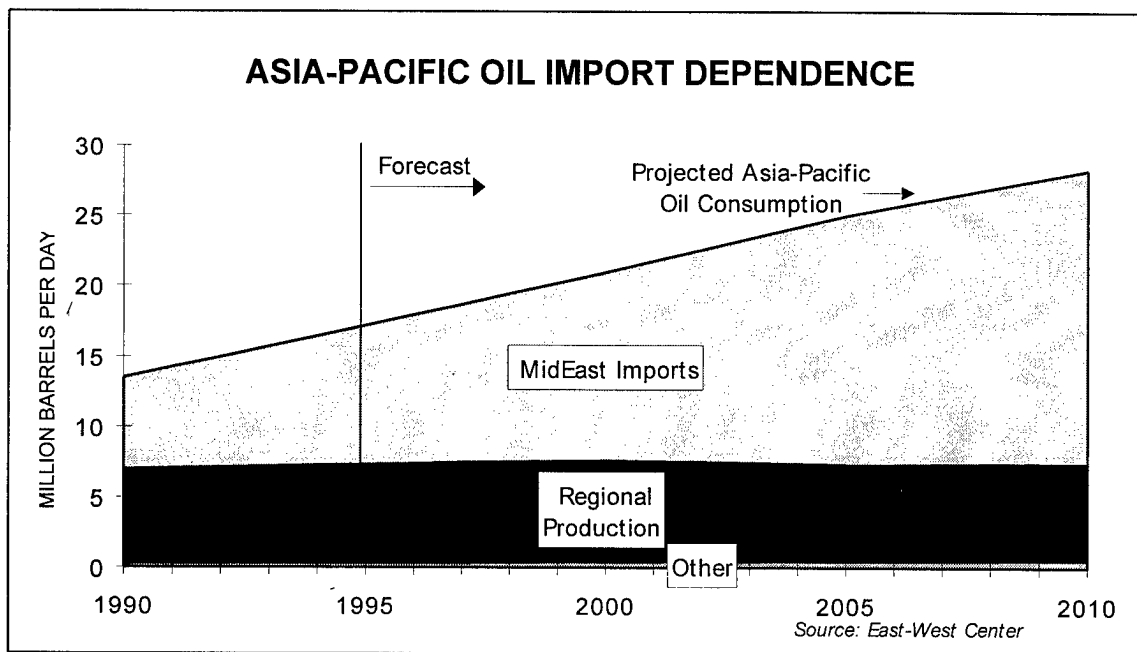


The Asia-Pacific has been an attractive destination for foreign direct investment since the 1980s. In contrast to short-term portfolio investment, direct investment represents a longer-term commitment to an economy while providing direct control to the investing company. Multinational firms long have found the region appealing as a source of raw materials and cheap labor for low-end production; the output from these investments generally has been exported to markets overseas. By 1996 the countries of Asia were emerging as lucrative consumer markets in and of themselves. U.S. companies in particular typically have used their direct investments to expand access to Asian consumer markets. Also, many Asian economies now offer relatively skilled labor forces that can support sophisticated industries capable of competing in the global marketplace and providing investors with profitable returns. Additional investment will be enhanced by the elimination of market access barriers.

## ENERGY AND SECURITY

Economic growth and changing lifestyles have created a growing demand for energy in the Asia-Pacific region over the last decade. Coal and oil are the region's primary energy sources, although reliance on natural gas and nuclear power is also growing. By early next century, the Asia-Pacific region is expected to be the world's largest energy market—with China and India playing dominant roles. The ongoing Asian financial crisis will restrain the growth of energy demand for a period; however, energy demand is expected to continue to outstrip supplies throughout the region. Many Asian countries are relying on imports—particularly oil—to satisfy their energy needs. Consequently, political and economic linkages are developing between Asia and the rest of the world, especially the oil producing nations of the Middle East.

Figure 4



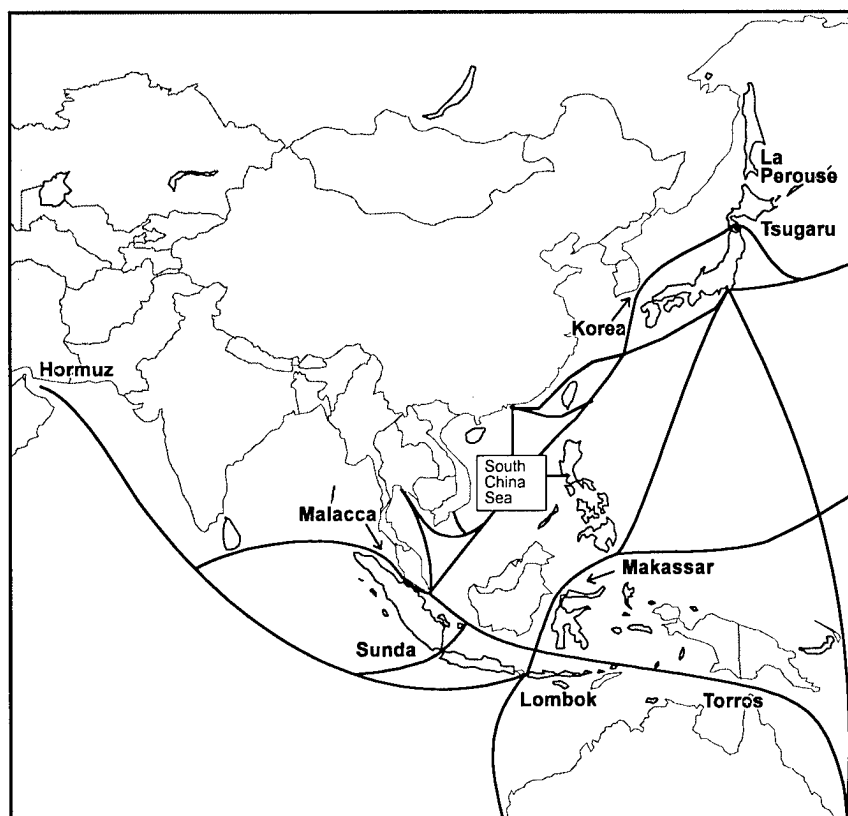
Oil dependence on Middle East sources will grow. The Middle East supplies over half of the oil demand of the Asia-Pacific region. In 1995, the Middle East supplied 56% of the Asia-Pacific region's total oil consumption, and is projected to supply 63% in 2000, and 74% in 2010.

While countries on the periphery of the South China Sea hope to find oil in the Spratly Islands, the economic importance of the Spratlys is easily overstated. Most sites for oil and gas are anticipated to be found along coastal areas, within Exclusive Economic Zones of countries of the South China Sea. Under optimistic assumptions, the oil potential of the Spratly Islands is modest, at no more than 200 to 300 million barrels, equating to the reserves of Brunei.

## SHIPPING AND COMMERCE

A fundamental factor behind Asia's past economic dynamism has been the free passage of shipping along sea lanes of the Asia-Pacific, especially through the straits of Southeast Asia. Dramatic expansion in the volume of commerce flowing into and out of the Asia-Pacific region has sharply raised the security value of Asia's shipping lanes not only to Asian countries, but to the United States as well.

Figure 5  
**Major Trade Routes and Straits**



Most trade through Southeast Asia moves by sea since many countries of Southeast Asia are either peninsular or insular, and infrastructure for land transport structure is not well developed. The major sea lines of communication (SLOCs) are constricted at several key straits, the most important of which are located in Southeast Asia: the Malacca, Sunda, Lombok, and Makassar straits. Over 15% of all the world's cross-border trade passes through Southeast Asia every year. Two-way trade transiting these SLOCs is important not only for the economies of Southeast Asia but also for Japan, Europe, and the NIEs of Hong Kong, Taiwan, and South Korea, as well as the United States and China.

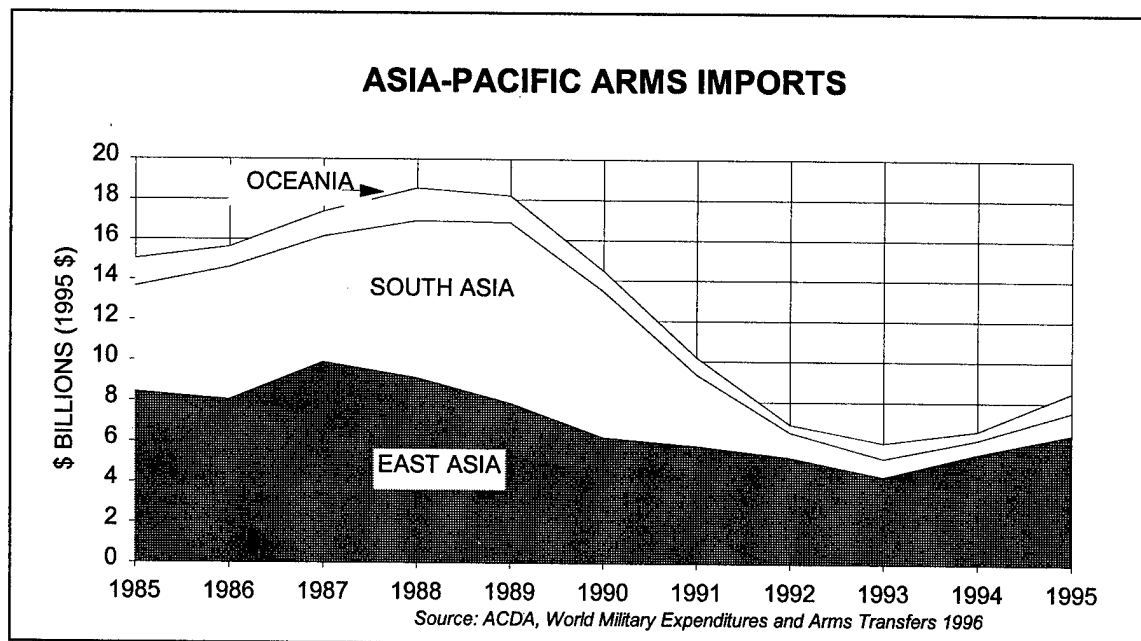
The existence of unresolved claims of sovereignty over islands and reefs that lie alongside major shipping lanes in the SCS is a source of potential instability to the area. The United States has issued statements advocating freedom of navigation, peaceful measures to resolve differences, and the use of international law, especially the 1992 United Nations Convention on the Law of the Sea.

## DEFENSE SPENDING AND ARMS TRADE

The Asia-Pacific region's past economic growth has afforded opportunities for increased defense spending and military modernization. The ongoing economic crisis in Asia places a significant burden on further military development, the extent of which will be determined by the scope and duration of the economic crisis. This chapter examines Asia's historical military spending trends and the arms trade. While there is no arms race in Asia at the present time, the People's Republic of China and several other nations are modernizing their forces. Thus, there is a continuing need for prudence in arms sales, increased transparency, expanded security dialogue, and American military engagement in the region to discourage any disproportionate buildup.

Defense expenditures in the Asia-Pacific region have been stable or increasing at a moderate pace. Over the ten-year period between 1985 and 1995, average annual defense spending in the region grew 2.3% per year after correcting for inflation. In contrast to the rise in absolute spending, the share of military spending in Gross National Product (GNP) has been declining in the Asia-Pacific region. Asia-Pacific countries generally spend less on defense on a percent-of-GNP basis than the world average.

Figure 6



Asia's large force requirements at the turn of the decade led the region to become an important source of demand for military equipment in the declining global arms market. The Asia-Pacific region's share of world expenditure on arms imports increased from 21% in 1985 to 28% in 1989. The share subsequently declined to 19% in 1993, but climbed to 27% in 1995 due to a relatively faster decline in other parts of the world. The total value of Asian arms imports declined from a peak of \$18.6B in 1988 to \$6.0B in 1993, but then rose to \$8.5B in 1995. The primary objectives of defense acquisitions in the Asia-Pacific region appear to be modernization of military forces, adaptation to new requirements for naval and air defense, and procurement of high-tech equipment.

## **PERSPECTIVES**

As a Pacific Rim nation, the United States shares a fundamental interest with other nations in regional peace and prosperity. U.S. investment in regional security supports the maintenance of a regional focus on productive activity and economic development, now especially important as Asia works through a period of financial turbulence toward economic recovery. This focus pays dividends in several respects.

First and foremost, such a focus reduces the incentive for nations in the region to amass destructive military power that might in the future be hostile to the United States or its friends and allies. Secondly, promoting economic development is perhaps the most effective way for the United States to achieve its objective of expanding freedom, democracy, and respect for human rights throughout Asia. Political freedom tends to follow economic freedom; with economic development comes a rising middle class with heightened expectations, aspirations, and access to information - a major weapon in the fight against injustice.

As documented throughout this Economic Update, current economic benefits and potential future benefits are enormous. Near-term gains from trade, both imports and exports, enhance America's economic welfare overall by increasing national income. Unfortunately, growth and economic change can create some social dislocation. The challenge for U.S. policy makers is to ease the social burden of economic change without resorting to protection, which could be perceived by other Pacific Rim countries as a direct threat to regional security.

In the longer term, trade and investment stimulate growth through several channels: the international division of labor that accompanies trade generates productivity gains that boost national output; U.S. investment in Asia generates profits and promotes the development of export markets; in turn, foreign investment in the United States contributes to the build-up of physical and human capital, which is the foundation of future growth; and both trade and investment increase the flow of technology and ideas, the twin engines of progress.

Finally, to close the loop, growth promotes America's future security. Economic growth in the United States builds the national capability and confidence to remain engaged. Cooperative engagement in Asia and the Pacific, now and in the foreseeable future, is the best U.S. strategy to promote continued peace and growing prosperity, both central to the well-being of American citizens.

# SECTION I

## INTRODUCTION

*"Because the turmoil in Asia will have an impact on all the world's economies, including ours, making that negative impact as small as possible is the right thing to do for America -- and the right thing to do for a safer world."*

*President William Clinton  
State of the Union Address  
January 27, 1998*

*"The energy, creativity, and discipline of our Asian partners and allies continue undiminished. And with continued self confidence in these strengths and a determination to pursue the economically sound path, our partners and allies in Asia can emerge from the crucible of the current crisis fundamentally stronger."*

*William S. Cohen, Secretary of Defense,  
Speech on U.S. Asia-Pacific Security Strategy,  
Singapore, January 15, 1998*

## **CHAPTER 1**

### **ECONOMIC TURBULENCE IN ASIA**

As the crisis in East Asia continues to unfold in 1998, vexing questions persist: What contributed to the regional financial turbulence? What is the extent of the crisis? Why was it not foreseen? What is the impact of these economic developments on domestic political stability, and in turn, on regional security in the Asia Pacific? How will defense planning and security sectors in the region be affected by new economic constraints now in force? Many leaders in the region have built their political legitimacy on the intertwined conditions of economic performance and regional security, yet now are facing a period of great uncertainty. In this situation, what role can—and should—the United States play?

#### **ECONOMIC DYNAMICS OF THE FINANCIAL CRISIS**

The origins of the financial crisis can be traced back to currency misalignments between Japan and the United States in the 1980s. In the early 1980s, the dollar soared against the Japanese yen, peaking at 265 yen to the dollar in March of 1985. Changes in U.S. tax policy in 1986, investor expectations of an eventual decline of the value of the dollar, and efforts toward international monetary coordination (e.g., the Plaza Agreement in 1985 and the Louvre Accord on 1987) reversed the movement of the dollar against other currencies. The dollar plummeted, eventually stabilizing in the late 1980s at about 120 yen per dollar. The increasing value of the yen undercut export competitiveness in Japan. Thus, Japanese companies were forced to find cheaper production sites offshore, leading to large capital outflows from Japan to South Korea, Taiwan, and some Southeast Asian countries. Asset market bubbles also began to emerge in the late 1980s due to inflationary monetary policy in Japan and institutionally weak financial systems.

Nearer-term elements of the crisis began with almost unfettered foreign currency borrowing by Asian firms in the 1990s. These companies were encouraged by the perceived financial stability derived from fixed exchange rates to the dollar (and thus less vulnerable to wild currency fluctuations) and low interest rates. In 1995 and 1996, export growth in the region began to fall as a result of a severe drop in the export prices of key products, such as semiconductors and automobiles. Many analysts at the time viewed the drop in export prices as a temporary supply and demand problem, which is not an unusual characteristic of business cycles. However, when profit expectations were not realized, domestic and foreign investors found shares of these Asian firms to be less attractive and thus, began moving their money out of these markets.

In addition, China's exchange rate devaluation in 1994 exacerbated the region's financial conditions by undercutting the export competitiveness of Southeast Asian economies. This market reaction exerted downward pressure on Asian currencies. As investors fled these markets en masse, governments across the region were finally forced to allow their currencies to depreciate. As the crisis unfolds, uncertainty and a lack of credible information about the scope of problems in these countries restrain some investors from returning to the region, despite the bargains generated by devalued currencies and deflated stock markets.

Not directly related but significant to understanding the context of the Asian crisis is the U.S. bailout of Mexico in 1995. When the United States served as a political and economic guarantor for Mexico's peso crisis, it sent a strong signal to international markets that imprudent investment decisions in other emerging markets in the future would also be protected.

### **Why Was the Crisis Not Foreseen?**

Government leaders, financial analysts, and economists were well aware of the asset bubbles in Asia and had some knowledge of severe problems in Korea's financial system and, to some extent, the extent of bad loans in Japan. Severe current account deficits in balance of payments of some of these Southeast Asian countries were also well known. However, like earthquakes, one can identify the stresses that could lead to a crisis, but it is difficult to know the timing and precise trigger mechanism--when or in what particular form the crisis would actually erupt. The crisis was also difficult to predict because accurate information was withheld from investors by troubled economies. In some cases, senior government officials themselves were unaware of the extent of their problems.

### **Considering Asia's Recovery**

Restoring market confidence is key to ending the crisis, but this can only be done by restoring confidence in the economic policies—and policymakers—in the region. Asia's problems are not over yet; as short-term debts continue to come due, rollover problems will be back. Also, sovereign default remains an option as of this writing. Lastly, Asian economies are likely to continue raising import restrictions in an effort to hoard dollars. Some analysts are less optimistic about Asia's recovery in comparison to the Mexican peso crisis for several reasons: the peso crisis involved one country, not a whole region. Also, the United States was seen as a guarantor of political and economic stability of Mexico. No country has stepped forth to take such a role. Thus, Asia's problems could last longer than that of Mexico's. Asia will be forced to endure painful reforms unlike anything the region has experienced and realization has dawned on Asia that 'things will never be the same' again. Not only will it be necessary for banks and financial systems to be completely revamped, but also the very way in which business is conducted (e.g. the end of crony capitalism) will need to be changed. The extent to which these reforms will be developed and implemented will have a significant impact on the duration of the financial downturn.

### **Problems Ahead?**

Despite assurances from the Chinese government, analysts and government officials in the region still worry about a possible devaluation of the Chinese currency. A devaluation of the renminbi could further destabilize regional currencies, sending new shock waves through East Asia and sparking a series of "beggar thy neighbor" policies. The state of China's economy looms over the prospects of a speedy Asian recovery. China has its own massive bad debt problem. Analysts estimate China's bad debt problem to be about 30-35% of GDP. The region's economic downturn will also hurt China's plans for privatizing its state owned enterprises, as the program requires huge infusions of foreign capital to create jobs and provide new technology.



## **The Dust Settling**

While the first phase of the financial crisis is over, real effects on production and employment in the hardest hit economies are starting to emerge as these countries begin implementing IMF programs and structural reforms. The political test of coping with the second phase of the financial crisis – an extended period of austerity – has begun. South Korea and Thailand have faithfully begun the process of implementing the IMF reforms. Indonesia continues its uneasy engagement with the IMF, but some progress is being made as the government and IMF seek working accommodations. Production and consumption are declining in these economies: IMF expects real GDP declines of 3.1% in Thailand, 5.0% in Indonesia, and 1.2% in Korea.<sup>1</sup> Simultaneously, unemployment and inflation have risen more rapidly than initially predicted. Liquidity and domestic debt problems are considerable, especially in Korea.

## **POLITICAL AND SECURITY IMPLICATIONS**

Given the economic conditions in the region, political and security observers are justly concerned about the implications for regional stability. Even more so than those in the economic circles, the crisis took political and security communities by great surprise. Although rhetoric in the region often refers to the importance of thinking about political security in economic terms, the financial crisis challenges policymakers in Asia and the United States to reconcile these notions of stability. A country perspective may serve as a useful method of understanding the political and security implications.

### **Indonesia**

Indonesia remains the primary political and security concern as a result of the economic crisis. The status of Indonesia has moved from an immediate emergency to a serious or chronic problem. The emigrant/ refugee levels are serious but manageable so far. Food supply problems are being addressed. Restoration of domestic and international confidence is key for Indonesia. Social tensions are likely to increase as Indonesia's economy bottoms out in the next two or more years. With negative growth in the near term for a nation accustomed to more than 7% growth, further tensions within the society are likely, including unrest and even some riots.

### **Korean Peninsula**

Opposition figure Kim Dae Jung's recent presidential victory marks a significant shift in Korean political history. If Kim won on the basis of a popular protest against the ruling party's poor management of the economy, the public's expectations that he deliver on his promises are high. There is a wait and see attitude by investors and other observers as to whether Kim is capable of fulfilling these demands, with initial signs of returning investors as this report is being written. It is unclear whether Kim's liberal populist platform and traditional ties with labor are strengths or weaknesses. Some may hope for sweeping changes, but his radical past and his urgent need to shore up domestic credibility may constrain him from continuing major reforms.

---

<sup>1</sup> IMF, Press Release for World Economic Outlook May 1998 ([www.imf.org](http://www.imf.org)).

Some analysts believe that the less economically intimidating South could increase the prospects of the North engaging seriously in bilateral talks. The effect of a psychological “balance” on the peninsula as the result of twin crisis on both sides of the DMZ may have positive implications for inter-Korean relations. Prospects for North-South dialogue revived more quickly than expected, with the first round of talks held in April in Beijing, although any optimism must be highly guarded. The consideration of unification as an absorption exercise is now remote.

The economic crisis is not likely to have a negative impact on the overall U.S.-Korea security alliance. Korea will continue to maintain host nation support, but it is likely to revisit the cost issue with the United States. In the short run, the ROK defense budget will decrease, but the impact will be mainly on supplemental purchases (e.g. AWACs). One tertiary effect of the crisis on defense planning and security is Seoul’s financial commitment to KEDO, the multilateral institution created to provide light water reactors to the North in exchange for the regime’s termination of its nuclear development program. Seoul will continue to support KEDO, but is revisiting the cost issue with the United States and Japan in light of its financial situation.

## **Japan**

Despite Japan’s \$18B in contributions to funding IMF rescue packages, criticism is widespread regarding Japan’s inability play a leading role during a time of crisis. Japan’s Ministry of Finance is also under fire for misinforming investors about the extent of its own bad debt problems. Japan’s inability to confront its need for serious reforms has sapped investor confidence and weakened its economy. Japan’s slowness in opening its markets detracts from its ability to serve as a stimulus for regional recovery. Furthermore, Japanese ambivalence about what to do, coupled with loudly expressed American frustration with Japan’s lack of action, could result in inadvertent strains in the overall U.S.-Japan bilateral relationship.

## **United States**

The economic impact of the Asian crisis on trade and production has been slow to materialize. The U.S. economy is in its eighth consecutive year of expansion, the longest period of peacetime growth in its history, but sustainability remains a question. It is likely that the Asian crisis will slow the pace of U.S. growth, although the timing and extent are uncertain.

The political impact of the Asian crisis in the United States was first felt in Congressional debates over U.S. funding of the IMF itself. As cheaper Asian imports arrive and export demand slackens, U.S. trade deficits with the region will widen significantly – increasing economic and political concerns.

Asian countries are seeking to maintain their security relations with the United States, but their ongoing austerity programs will restrain the frequency and scope of military exercises and activities.

## **USCINCPAC Role**

The challenge for USCINCPAC in this situation is to quietly balance two messages: our military presence reflects the real security concerns in the Asia-Pacific, while at the same time signifying America's long-term commitment to the region. The United States must remain engaged and committed to the Asia Pacific region, in both words and deeds. The U.S. must emphasize its interests in the region and the importance of its alliance relationships. U.S. leadership must continue to stress its understanding of the linkages between economic stability and security. Strong U.S. leadership is indispensable for fostering a stable security environment conducive to building trust and confidence through cooperative approaches. These approaches will need to be flexible and imaginative to keep our security relationships robust during this difficult period of adjustment.

In the long term, most policy experts and academics believe Asia will emerge from its present troubles with stronger, more competitive economies. The fundamental macroeconomic and socio-cultural foundations upon which Asia's miraculous growth transpired remain sound. As the reader will see confirmed throughout this Economic Update, our increasingly interdependent relationship with Asia has been a crucial factor in our own economic dynamism and success. Peacetime engagement with Asia and the Pacific continues to remain the best U.S. strategy for promoting security, stability, and growing prosperity.

## SECTION II

### ECONOMIC DYNAMICS OF THE ASIA-PACIFIC REGION

*"Now, why should Americans be concerned about this? First, these countries are our customers. If they sink into recession, they won't be able to buy the goods we'd like to sell them. Second, they're also our competitors. So if their currencies lose their value and go down, then the price of their goods will drop, flooding our market and others with much cheaper goods, which makes it a lot tougher for our people to compete. And, finally, they are our strategic partners. Their stability bolsters our security."*

*President William Clinton  
State of the Union Address  
January 27, 1998*

*"East Asia's economic crisis risks undermining one of the most remarkable economic and social achievements in modern history unless the region embraces fundamental social and financial reforms. No other group of countries in the world has produced more rapid economic growth and dramatic reduction in poverty than East Asia. Korea, Malaysia, and Thailand have virtually eliminated absolute poverty, and Indonesia is within reach of that goal."*

*James D. Wolfensohn, President, World Bank  
January 27, 1998*

## CHAPTER 2

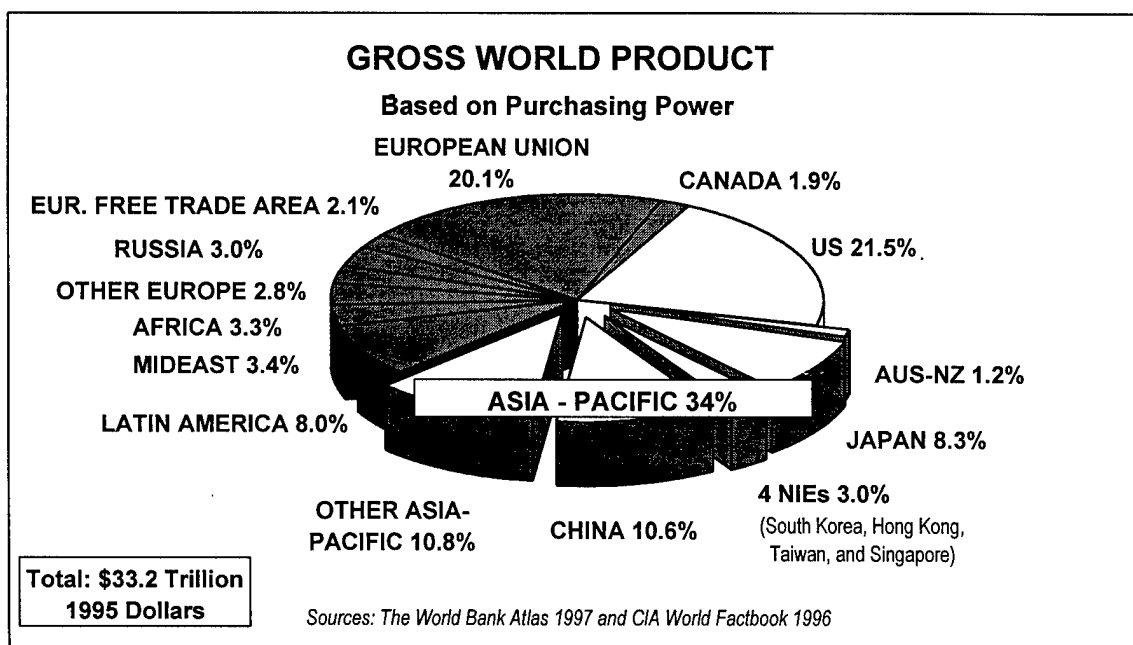
### REGIONAL ECONOMIC GROWTH

Over the last quarter century, the Asia-Pacific region has exhibited the fastest economic growth in history. This economic growth has been attributed to two principle factors: prudent market-oriented economic policies on the part of individual countries and a secure regional environment promoted by decades of U.S. engagement in Asia. This chapter describes the dynamic growth of Asian economies, notes weaknesses and challenges exposed by the recent financial crisis, and outlines the basis for America's enormous economic stake for continued economic growth in the region.

#### Asian Dynamism

For more than three decades dynamic economic growth has been widespread among Asian countries. Today, the Asia-Pacific region is home to the world's second and third largest economies—China and Japan. The total size of the Asia-Pacific region's output rivals and by some measures exceeds those of the United States and the European Union (EU). (See Figure 2-A.) In 1973, Asia accounted for just 15% of the world's economic output.<sup>1</sup> By 1995, the Asia-Pacific region's share was 29% of world output when measured on an exchange rate basis and was 34% of world output when measured on a Purchasing Power Parity (PPP) basis.<sup>2</sup> Asia-Pacific output already far exceeds U.S. and EU totals, when measured on the basis of Purchasing Power Parity (PPP). (See Figure 2-B.)

Figure 2-A



<sup>1</sup> Maddison, Angus, *The World Economy in the Twentieth Century*, 1989.

<sup>2</sup> World Bank, *World Bank Atlas 1997*; and CIA, *World Factbook 1996*. The exchange rate method converts foreign currency to U.S. dollars using market exchange rates, and is fairly straightforward to calculate; however, it does not account for the buying power of a country's currency for those goods and services that are not transacted in the international trading system, but only trade in domestic markets. The PPP method of estimation is more cumbersome, but does account for a country's domestic purchasing power.

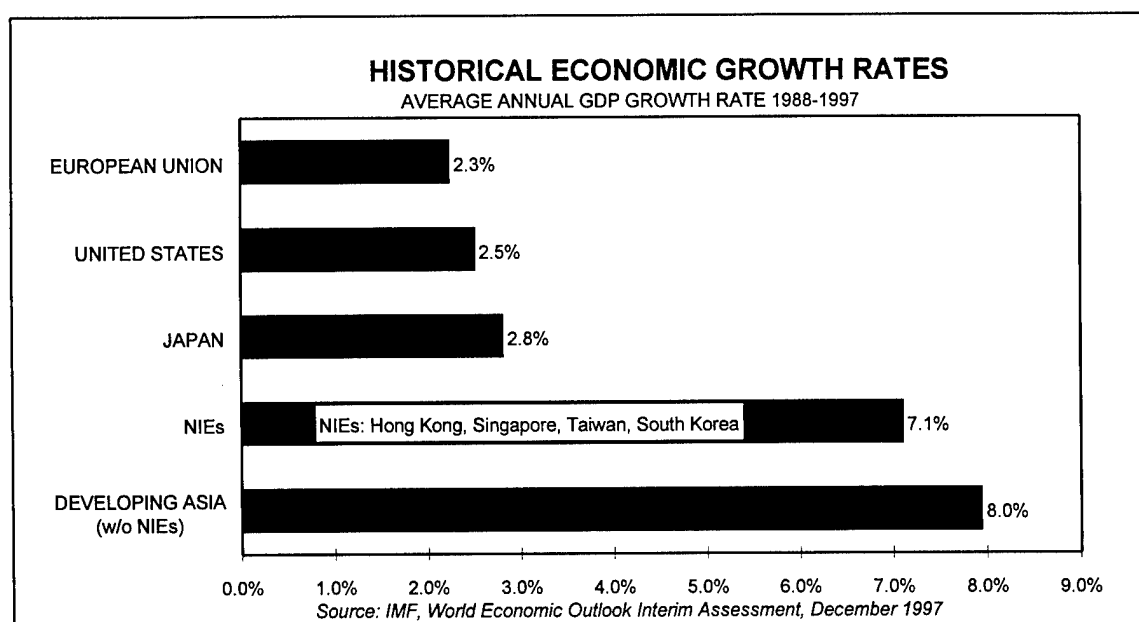
Figure 2-B  
Comparison of Regional Output (1995)

|               | PPP<br>Basis    | Exchange-Rate<br>Basis |
|---------------|-----------------|------------------------|
| Asia-Pacific  | \$11.3T (33.9%) | \$8.1T (28.9%)         |
| United States | \$7.1T (21.5%)  | \$7.1T (25.6%)         |
| EU            | \$6.7T (20.1%)  | \$7.4T (26.7%)         |
| World         | \$33.2 T        | \$27.9T                |

Developing Asia (which consists of Asia-Pacific countries less the industrialized countries of Japan, Australia, and New Zealand) has contained the world's best performing economies, as well as some of the world's problem economies. In general, Developing Asia has had higher and more sustained economic growth than the United States, Japan, and the EU over the last decade.<sup>3</sup> (See Figure 2-C.) China is the world's fastest growing economy, averaging 9.8% annual growth between 1988 and 1997; indeed, it is now ranked as the world's second largest economy on a PPP basis. The Four Newly Industrialized Economies (NIEs) of South Korea, Taiwan, Hong Kong, and Singapore averaged growth of 7.1% between 1988 and 1997. The countries of Southeast Asia followed the example of the NIEs, and grew at about 7.7% annually over the same ten year period, while South Asia, poorer and more populous, progressed with a modest, but respectable, average growth rate of 6.0%.<sup>4</sup>

Parts of the region have been less fortunate. Economies such as North Korea and Burma are endowed with natural resources, but are not performing well. Countries such as Bangladesh, Cambodia, and Laos rank among the world's poorest. (See Data Appendix.)

Figure 2-C



<sup>3</sup> International Monetary Fund (IMF), *World Economic Outlook Interim Assessment*, December 1997 ([www.imf.org/](http://www.imf.org/)). In 1997 the Newly Industrialized Economies were given "Advanced Economy" status.

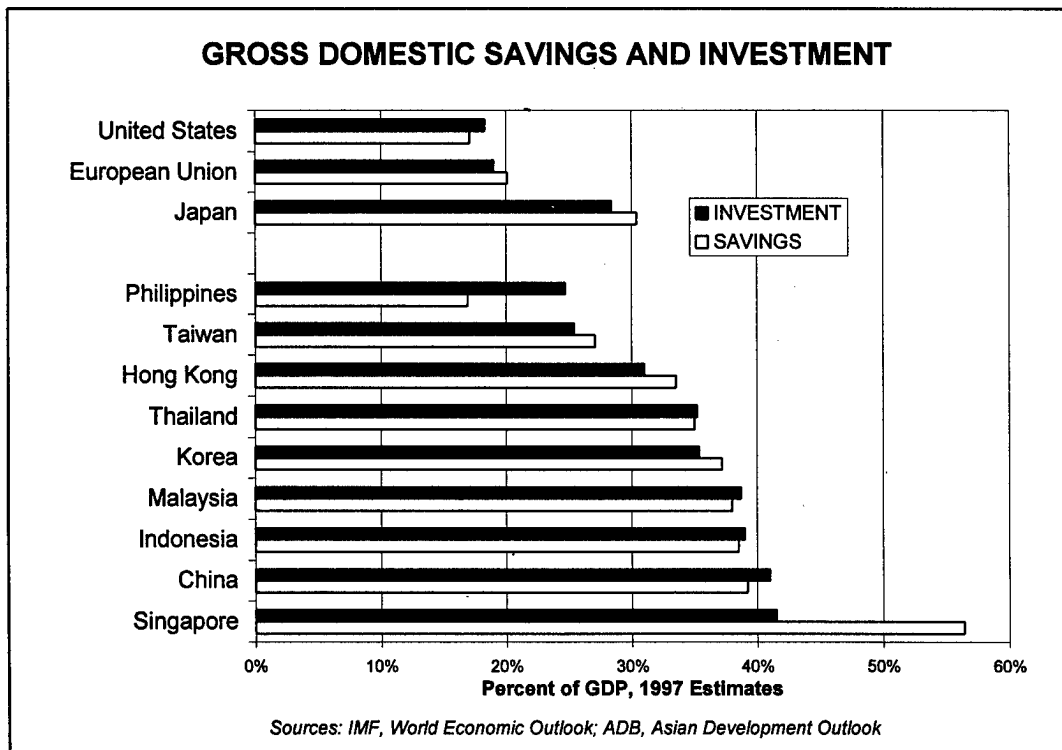
<sup>4</sup> ADB, *Asian Development Outlook 1997 and 1998*, April 1997 and IMF, *World Economic Outlook Interim Assessment*.

## Fundamental Factors Behind Asia's Historical Economic Growth

Analysts point to a variety of factors in explaining the Asia Pacific's relatively successful growth experience. Among the most important are:

- Relatively open economies characterized by vigorous trade and investment ties with the United States, Japan, and Europe.
- High inflows of capital and labor to modern, internationally-oriented economic sectors.
- High rates of national saving and aggressive investment in physical and human capital. (See Figure 2-D.)
- Stable macroeconomic policies conducive to investment and commercial activity.
- Pro-market government interventions intended to steer resources into more productive activities.
- Reliance on cultural factors that value education and a strong work ethic.

Figure 2-D



But as noted by James Wolfensohn, President of the World Bank, the current financial crisis has uncovered weaknesses in the political, financial, and corporate institutions as they have become increasingly exposed to the global economy.<sup>5</sup> He calls attention to the challenge of instituting correctives to bring about renewed and sustainable economic development:

- Adopting wide-ranging reforms in the corporate and financial sector.
- Improving the quality and transparency of key government institutions, including addressing issues of corruption and accountability.
- Strengthening social protections for the poor.

### **The U.S. Economic Stake in the Asia-Pacific Region**

The economic relationship between the United States and countries of the Asia-Pacific region has become vital to America's security and economic well-being. America benefits not only from international order and stability, but also from increased trade and investment.

U.S. merchandise trade with the Asia-Pacific region totaled about \$548B in 1997, making the Asia-Pacific region America's most robust trading area. A full 39% of U.S. merchandise imports comes from the Asia-Pacific region, and 33% of U.S. merchandise exports is sold to the Asia-Pacific. As Asia's economies grow, so do their requirements for development of better infrastructure: transportation, communications, energy, and environmental improvement. This needed modernizing of Asia's infrastructure presents enormous commercial opportunities for American business.

U.S. exporters have found that direct investment in Asia facilitates their export sales. American companies have yet to realize the full potential of investing in Asia; only 18% of total U.S. overseas holdings in 1996 was in the Asia-Pacific region. Nevertheless, U.S. holdings in the Asia-Pacific region increased substantially from \$46B in 1987 to \$140B in 1996.

The continued growth of Asian economies and the expansion of trade between America and the Asia-Pacific region will deepen our economic interdependence, with its attendant benefits and problems. Managing interdependence will require enhanced economic cooperation and increased attention to diplomatic and military security relations in the region.

---

<sup>5</sup> Wolfensohn, James, "Asia: The Long View," *Financial Times* (London), January 29, 1998.



## CHAPTER 3

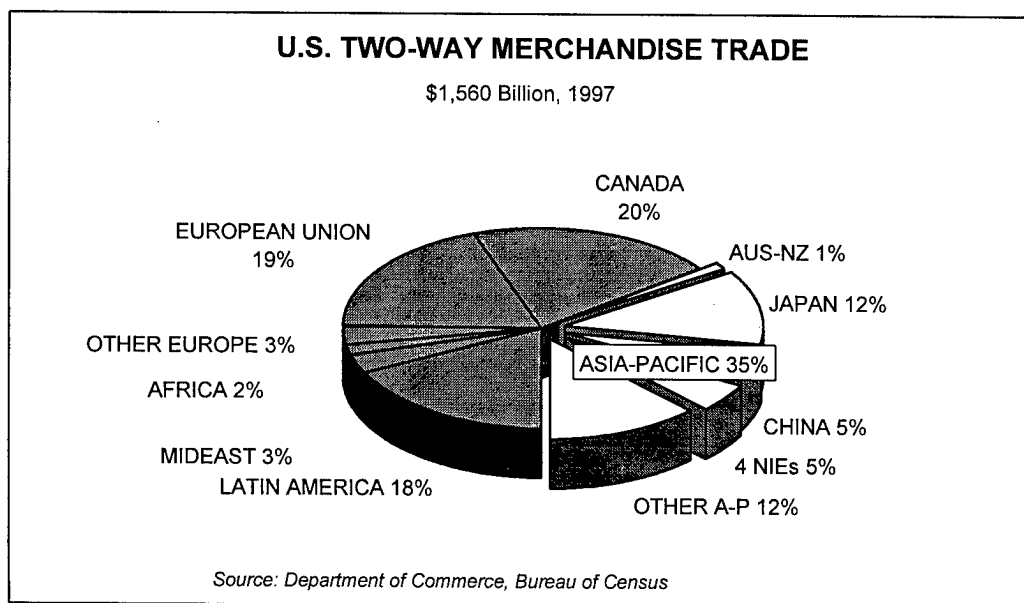
### ASIAN TRADE

Economic relations in the Pacific basin over the last twenty years may be characterized first and foremost by the vigorous trade that occurs throughout the region. This chapter describes key trends and issues of U.S. trade with Asia and places Asia's trade in a regional and global context. The region is easily America's largest trading partner. (See Figure 3-A) Asia's economies provide significant opportunities for export companies, while also furnishing an economy with the gains from trade through the import of Asian goods and services.

#### Trade and the U.S. Economy

International trade has become an increasingly important component of the American economy, as reflected in the rising share of exports and imports in the U.S. economy.<sup>1</sup> The ratio of imports to U.S. GDP rose from 8% in 1975 to 13% in 1997, while the export ratio rose from 8% to 12% over the same period. An estimated one-third of total American economic growth over the past three years is due to the growth of exports, although the ongoing financial crisis will adversely impact American exporters.<sup>2</sup> American companies and their workers both benefit from ties to the global economy. According to Commerce Department calculations, exports were the foundation of some 11 million jobs in 1995,<sup>3</sup> and wages in export industries are 13%-18% higher than those firms concentrating on domestic sales. For many American companies, the domestic market is simply no longer a sufficient base of operations. In the words of Mickey Kantor, former U.S. Secretary of Commerce, "American firms will simply not thrive at home unless they take full advantage of the tremendous opportunities abroad."<sup>4</sup>

Figure 3-A



<sup>1</sup> Department of Commerce, Bureau of Economic Analysis, *National Accounts Data* ([www.bea.doc.gov/bea/dn/nipbtbl-d.htm](http://www.bea.doc.gov/bea/dn/nipbtbl-d.htm)). Includes goods and services trade, and is based on a recent revision of the National Income and Product Accounts.

<sup>2</sup> U.S. Trade Promotion Coordinating Committee, *National Export Strategy*, October 1996.

<sup>3</sup> *National Export Strategy*, October 1996.

<sup>4</sup> *National Export Strategy*, October 1996.

## Prosperity and Friction: U.S. Trade with the Asia-Pacific Region

As the Asia-Pacific's piece of the global economy has expanded, its importance to the American economy has grown apace. The region accounted for an estimated \$548B—or 35%—of total merchandise exports and imports in 1997.<sup>5</sup> Although most public attention focuses on America's lasting trade deficits with the region, trans-Pacific trade ties remain on balance mutually beneficial. Developing Asia, Japan, and the United States are simultaneously important sources of imports and major markets for exports. These linkages give all countries in the Asia-Pacific a major stake in preserving a generally open trading system, although trade frictions do present a threat to the health of America's relations with the region that should not be minimized.

*U.S. Exports.* The Asia-Pacific region purchased nearly one-third—some \$207B—of American merchandise exports during 1997 (see Figure 3-C).<sup>6</sup> Japan is America's second-largest export market (\$66B in 1997), after Canada (\$151B). Developing Asia absorbed another \$129B in U.S. exports, a small increase over the previous year's figures. Major American merchandise exports to the region include agricultural products, power industry equipment, computers and electronics, and aircraft and parts. Trade in services, which is not reflected in the merchandise trade data, represent another area of opportunity for American firms in the region. Exports of U.S. services to the Asia Pacific—which includes such industries as finance, engineering, and transportation—totaled some \$81B in 1996.<sup>7</sup> To promote trade opportunities, the U.S. National Export Strategy seeks to make the export process more efficient and effective by reducing export barriers and expanding markets abroad. The strategy coordinates the U.S. Government's efforts to assist American exporters through advocacy, export financing, and business counseling.<sup>8</sup>

*U.S. Imports.* America's imports of goods produced in the Asia-Pacific are even larger than U.S. exports to the region. Firms from the region sold \$341B worth of goods in the American market last year, a full 39% of total U.S. merchandise imports in 1997. (See Figure 3-D.) Although Japan is America's second-largest individual source of imports—with sales totaling \$121B in 1997—Developing Asia as a whole supplies a far larger volume. American imports from these countries totaled \$215B in 1997; sales from China alone totaled \$63B. While a significant share of these goods represent low-end, labor-intensive production—such as toys and textiles—imports from Developing Asia now include electronics and machinery. This diversity reflects the region's progress up the development ladder.

---

<sup>5</sup> Department of Commerce, Bureau of the Census, *FT-900 Supplement*, ([www.census.gov/foreign-trade/](http://www.census.gov/foreign-trade/)) February 1998. Census import figures do not include freight and insurance.

<sup>6</sup> Department of Commerce, Bureau of the Census, ([www.census.gov/foreign-trade/](http://www.census.gov/foreign-trade/)) February 1998.

<sup>7</sup> Department of Commerce, *Survey of Current Business*, April 1997. (Other Asia also includes a minor amount to Africa.)

<sup>8</sup> Office of the President, *Economic Report of the President together with the Annual Report of the Council of Economic Advisors*, February 1997 ([www.access.gpo.gov/eop/](http://www.access.gpo.gov/eop/)); U.S. Trade Promotion Coordinating Committee, *National Export Strategy*; International Trade Administration, *About ITA*, ([www.ita.doc.gov/ita\\_home/](http://www.ita.doc.gov/ita_home/)).

Figure 3-B

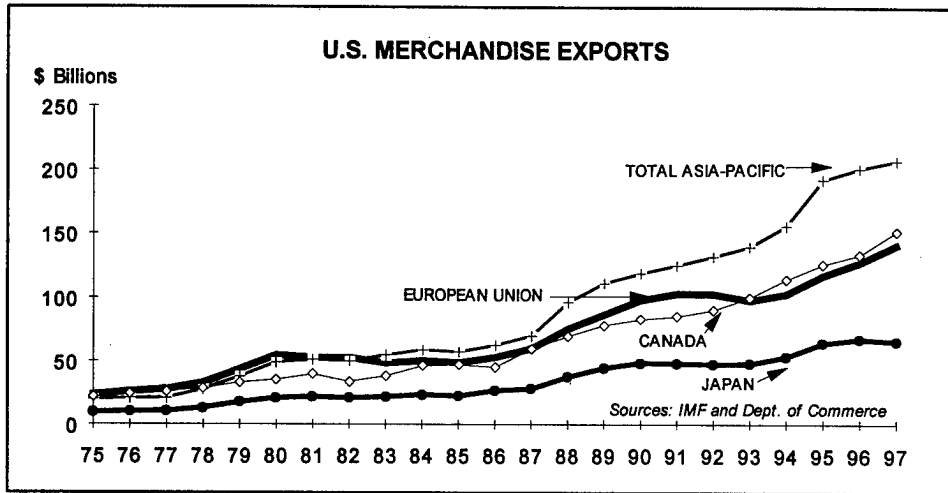


Figure 3-C

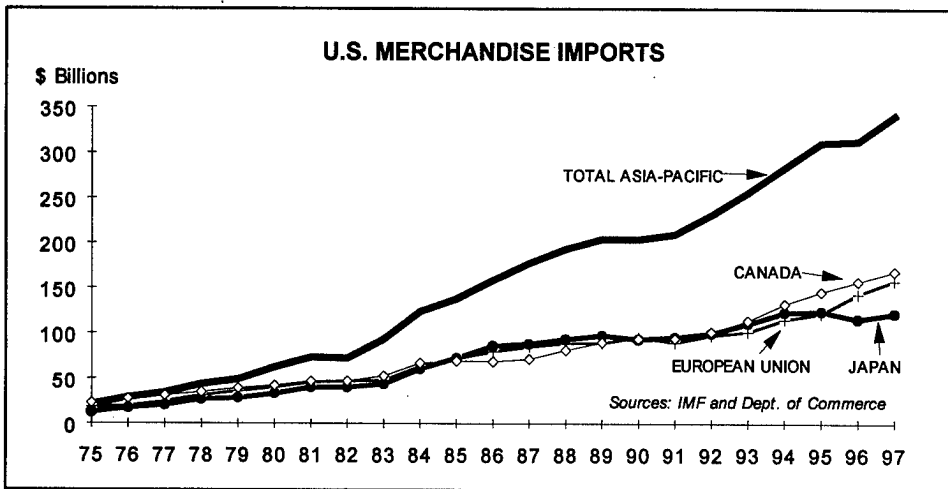
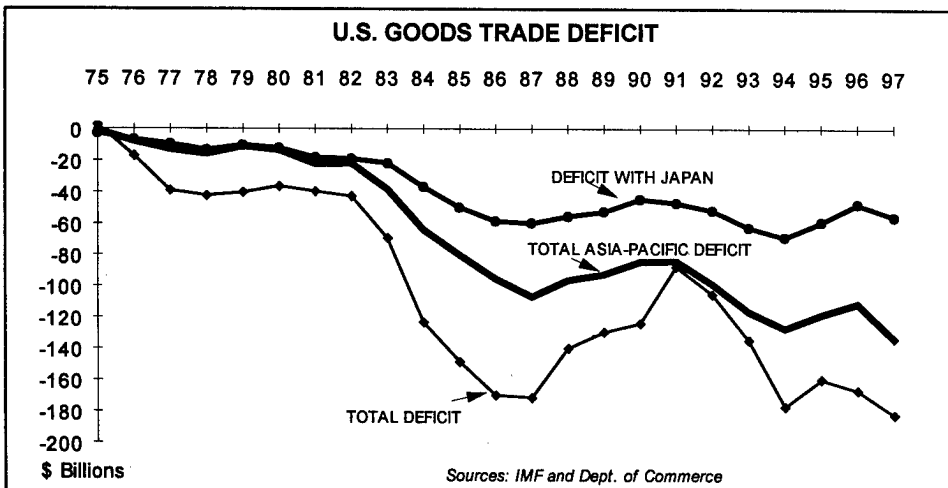


Figure 3-D



*The U.S. Trade Deficit.* The United States continues to run a large merchandise trade deficit, which is most noticeable in the Asia-Pacific. The region alone accounted for 73% of the U.S. merchandise trade deficit in 1997. (See Figure 3-D.) The bilateral imbalances with Japan and China represent the lion's share of this total, but America ran trade deficits with most major economies in the region in 1997—the exceptions being Australia, Hong Kong and South Korea.

Economists point out that trade imbalances are caused by a variety of factors.<sup>9</sup> Broad macroeconomic factors—including relative savings and investment rates, consumption patterns in the countries and exchange rates—are far more important in determining overall trade flows than individual market barriers. Nevertheless, American firms could be selling more in the Asia Pacific than they do. The barriers that U.S. businesses face are often subtle. Tariffs are no longer the key impediment to trade in the region; non-tariff barriers are much more important. Barriers in the form of non-transparent or incomplete legal and regulatory frameworks, insufficient protection of intellectual property rights, capricious industry standards, and official corruption all undermine the ability of American business to reach its full potential in the region—even if such obstacles alone are not the full cause of the U.S. trade deficit. Adjusting these barriers will relieve some of the stresses in the ongoing Asian financial crisis, and will improve Pacific Rim economic relations in the long run.

Although the threat that trade deficits present to the American economy is often exaggerated—and the sources of those deficits poorly understood—the *perception* that the United States has been victimized by Asian trade practices creates real political pressures that should not be underestimated. America's recent economic boom has placated the loudest critics of current U.S. policy, but any sustained downturn could bring a resurgence in voices claiming that the Asia Pacific is "free-riding" on American security guarantees while exploiting the relative openness of American markets.

## Trade in Asia

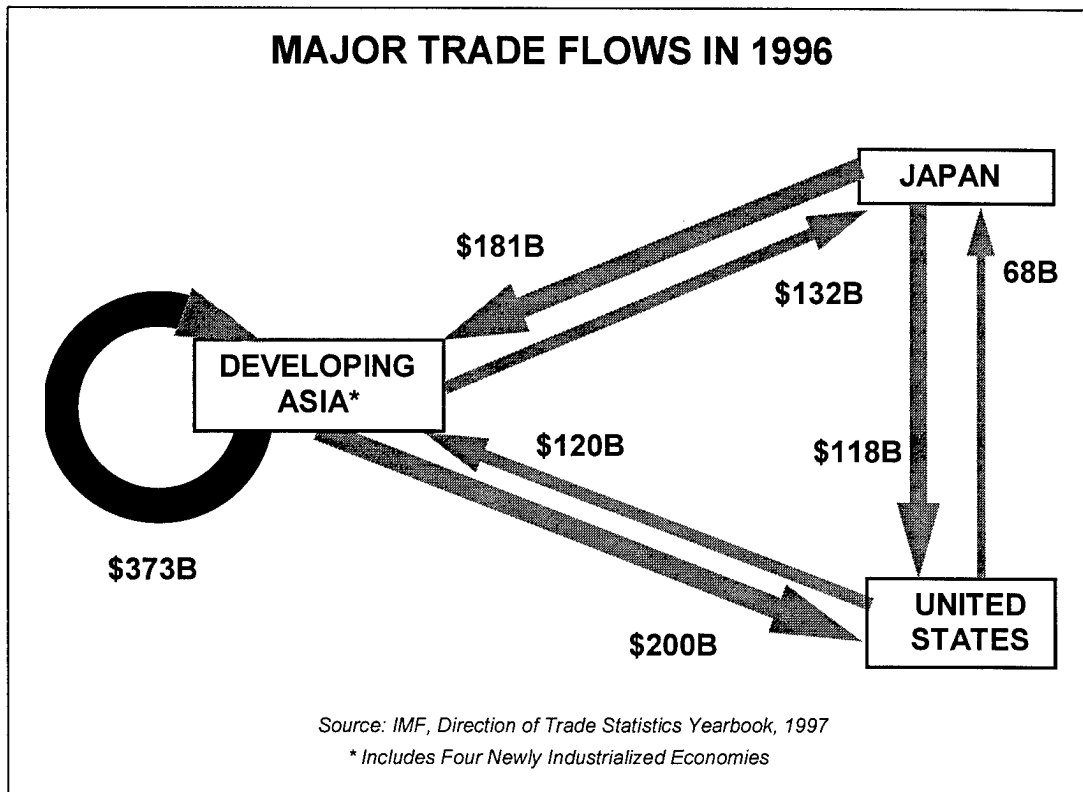
*Multipolar Trade System.* The United States, Japan, and the rest of the Asia-Pacific region are mutually dependent on open trade. All inject significant amounts of goods and services into the global trading system. The United States produced 12% of the world's exports in 1996, while Japan produced 8%, and the rest of the Asia-Pacific region produced 19%. Figure 3-F illustrates the multipolar nature of Asia-Pacific trade; it shows that neither the United States nor Japan is the single, dominant trade partner of Developing Asia.<sup>10</sup>

In terms of the volume of their trade with the world, both Japan and the grouping of Newly Industrialized Economies (NIEs) of South Korea, Taiwan, Hong Kong, and Singapore rival the United States as global trading powers. In 1996, Japan exported \$411B to the world and the NIEs an even larger \$552B; these totals were not far behind U.S. worldwide exports of \$623B. Within the region, the most dynamic growth of exports appears in the countries of Developing Asia (which consists of Asia-Pacific countries less the industrialized countries of Japan, Australia, and New Zealand). During the ten-year period from 1987 to 1996, the value of exports from Developing Asia grew 16% annually, in contrast to a world average of 11%. For 1996 alone, however, exports from Developing Asia grew only 5% in contrast to 1995 growth of 22%. Japan's exports actually declined 7% in 1996, in contrast to a 12% growth in 1995. Diminished income from exports in 1996 was a harbinger of the Asian financial crisis of 1997.

9 *Economic Report of the President together with the Annual Report of the Council of Economic Advisors*, February 1997.

10 International Monetary Fund, *Direction of Trade Statistics Yearbook*, various years. Last year of available data is 1996.

Figure 3-E



*Cooperation.* The openness of the global trading system upon which Asian economies are so highly dependent has led to increased reliance on multilateral trade institutions. The World Trade Organization (WTO), the Asia Pacific Economic Cooperation forum (APEC), and other multilateral institutions will be quite visible in future years as Asia-Pacific economies seek to promote their own economic growth and welfare. (See Appendix A.) The WTO provides an internationally acceptable means of arbitration for trade disputes, although key processes of the system are only now being tested.<sup>11</sup> Regional trade-agreements such as APEC augment global trade liberalization, and provide a means for economic and political cooperation among members. APEC leaders agreed in 1994 to create free and open trade and investment among themselves, with a goal year of 2020 for developing countries and 2010 for industrialized countries.<sup>12</sup> The commitment of Asian economies to foster growth through trade liberalization will be tested during Asia's ongoing financial difficulties.

<sup>11</sup> WTO, *About WTO*, ([www.wto.org/about\\_wpf.html](http://www.wto.org/about_wpf.html)).

<sup>12</sup> APEC, *APEC Information*, ([www.apecsec.org.sg/agenda.html](http://www.apecsec.org.sg/agenda.html)).

## CHAPTER 4

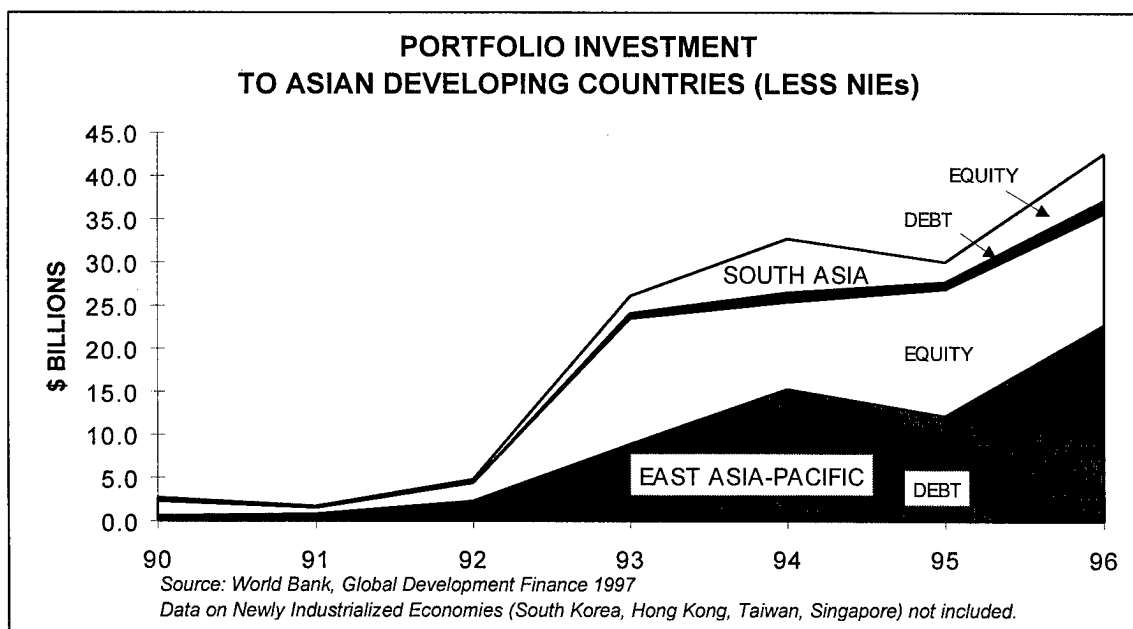
### FOREIGN INVESTMENT AND AID

Investment and aid flows represent another force integrating the Asia Pacific and tying the region to the global economy. Private capital flows into the region primarily in two ways: through portfolio investment—i.e., foreign purchases of Asia Pacific stocks and bonds—and direct investment—the establishment, acquisition or expansion of a business enterprise by a foreign concern. Portfolio investment has expanded dramatically in the region since 1993, adding further fuel and stress to the engine of Asia Pacific growth. Foreign aid, although in decline worldwide, also continues to be an important source of capital for the region; Japanese assistance in particular continues to support the construction of a significant portion of the region's large-scale infrastructure needs.

#### Private Capital Flows

*Portfolio Investment.* The Asia-Pacific's economic expansion has prompted an influx of foreign capital into regional stock and bond markets. In rapidly increasing numbers, investors sought to profit from opportunities in the region: portfolio investment flows to Developing Asia grew from \$2.7B in 1990 to \$42.6B in 1996.<sup>1</sup> (See Figure 4-A.) U.S. portfolio investment flows during 1996 to the Asia-Pacific totaled \$33B.<sup>2</sup>

Figure 4-A

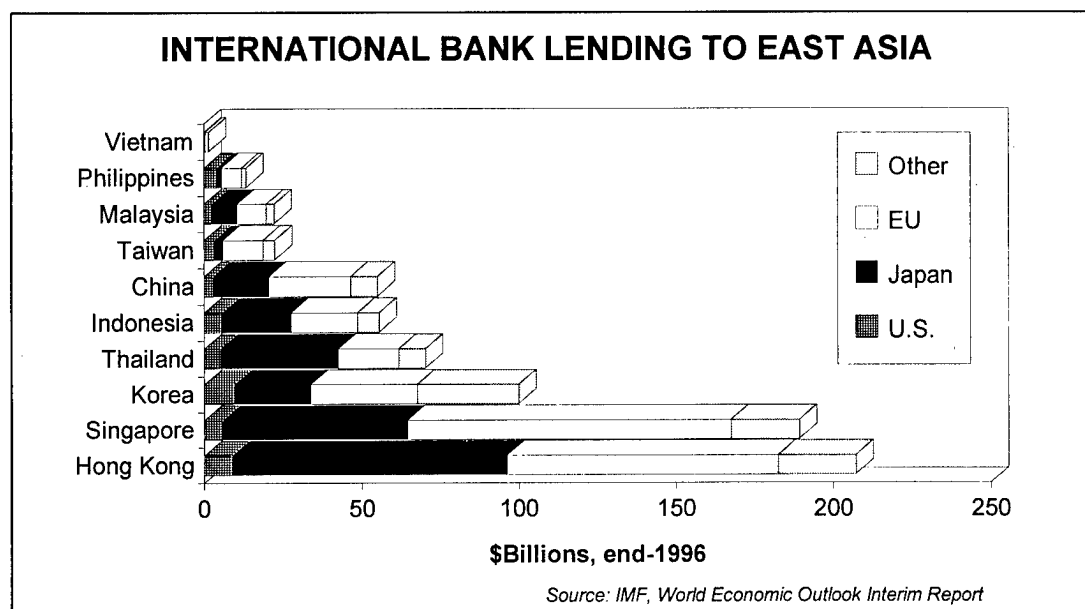


<sup>1</sup> World Bank, *Global Development Finance 1997*, Volume 1, March 1997, Table A5.1 (World Bank's revised data includes both equity and debt flows). Data on Newly Industrialized Economies (NIEs, Hong Kong, Singapore, Taiwan, South Korea) not available.

<sup>2</sup> Department of Commerce, *Survey of Current Business*, Table 10, April 1997. (Developing Asia also includes small amounts to Africa).

An indication of the global investment linkages to Asia is shown in Figure 4-B, which identifies banks of the European Union lending the most in East Asia (at the end of 1996), followed by Japanese banks and -- at a distant third -- U.S. banks.<sup>3</sup>

Figure 4-B



*Direct Investment.* The Asia-Pacific has been an attractive destination for foreign direct investment since the 1980s. In contrast to short-term portfolio investment, direct investment represents a longer-term commitment to an economy while providing direct control to the investing company. Multinational firms long have found the region appealing as a source of raw materials and cheap labor for low-end production; the output from these investments generally has been exported to markets overseas. By 1996 the countries of Asia were emerging as lucrative consumer markets in and of themselves. U.S. companies in particular typically have used their direct investments to expand access to Asian consumer markets. Also, many Asian economies now offer relatively skilled labor forces that can support sophisticated industries capable of competing in the global marketplace and providing investors with profitable returns. Additional investment will be enhanced by the elimination of market access barriers.

Historically Japan has not been a major recipient of direct investment; as of 1996 foreign interests held a cumulative total of only \$45B in direct investment in Japan—in sharp contrast with the approximately \$240B stock that Japanese interests hold in the United States.<sup>4</sup> Developing Asia, however, is a major recipient of world direct investment; in fact, the region received 58%—some \$64B—of all such flows to the developing world in 1996. Within the region, the Chinese economy receives an ever larger piece of the direct investment pie. Companies pumped \$42B into China in 1996, a full 39% of all direct investment flows to the

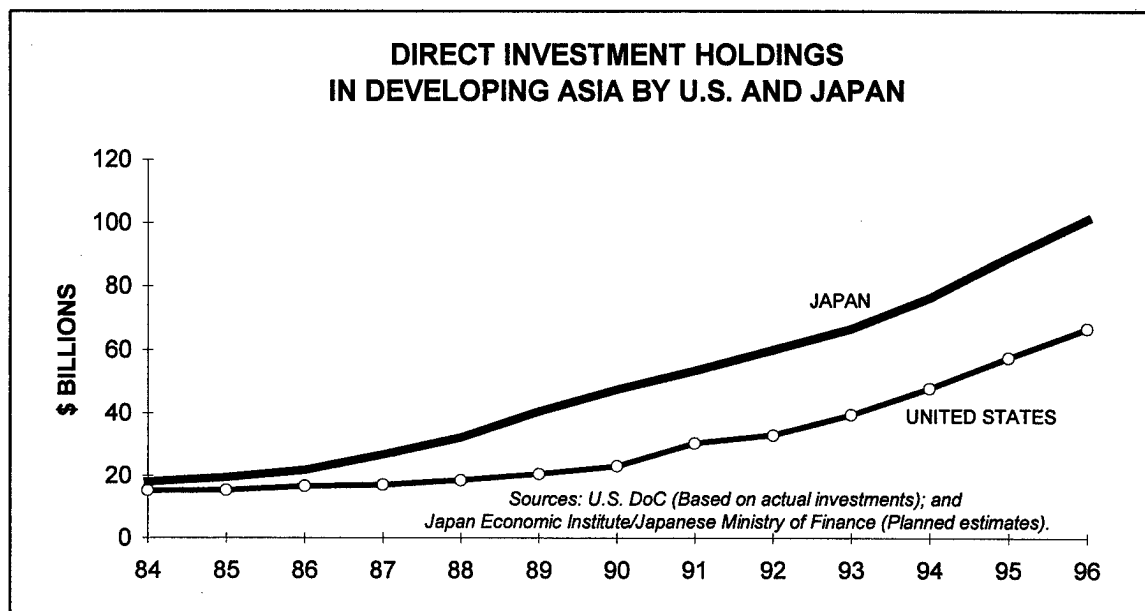
<sup>3</sup> IMF, *World Economic Outlook Interim Assessment*, December 1997. ([www.imf.org/external/pubs/FT/Weo/](http://www.imf.org/external/pubs/FT/Weo/)).

<sup>4</sup> These figures are from the Japanese Ministry of Finance ([www.mof.go.jp/english/files.htm](http://www.mof.go.jp/english/files.htm)), July 1997. American data for Japanese investment in the United States — which is based on actual, rather than planned, investments — suggests a \$109B stock through 1995 (Department of Commerce, *Electronic Bulletin Board File: INT-INV.BEA*, July 1997).

developing world. Indonesia, Malaysia, and Thailand are also major FDI recipients in the region, and India and Vietnam are emerging as attractive candidates as well.

Today, Japan is the largest foreign investor in most Asian nations. A typical pattern has been Japanese investment in regional, labor-intensive industries that produce intermediate goods for export back to Japan, where the final product is manufactured for export to third countries such as the United States. However, Asian affiliates of Japanese firms increasingly sell their products to local or Japanese markets. Japan's holdings in Developing Asia have exceeded American holdings since about 1984. (See Figure 4-C.) In 1996, Japan's holdings in the Developing Asia region were \$101B; holdings in Australia and New Zealand totaled \$29B. Meanwhile, U.S. holdings in Developing Asia totaled \$66.5B.<sup>5</sup>

Figure 4-C



### Foreign Aid and Other Official Flows

Flows of official resources represent another important—albeit declining—form of capital movements into the Asia-Pacific. Flows from the public sector come in a number of forms, including: official development assistance (ODA), as extended by individual national donors or through multilateral lending institutions such as the World Bank, which is intended primarily to support the development needs of a recipient country; export credits, investment insurance and project finance loans, which promote first the commercial interests of the donor country in a developing economy; and military assistance and training, which support the donor's strategic interests in a recipient country or region.

Capital flows from the official sector to the developing world are increasingly under assault worldwide, as many donor countries face tightening fiscal constraints at home. With private capital now flowing to the developing world in volumes that dwarf giving from the

<sup>5</sup> Japan Ministry of Finance, *Japanese Direct Investment*, ([www.mof.go.jp/english/files.htm](http://www.mof.go.jp/english/files.htm)), July 1997; Department of Commerce, *Survey of Current Business*, July 1997 ([www.stat-usa.gov/bea2/internet/scbusdia.html/0797dip.pdf](http://www.stat-usa.gov/bea2/internet/scbusdia.html/0797dip.pdf)).



official sector, some analysts have even begun to question whether foreign aid, broadly defined, remains a relevant policy tool. Nevertheless, a number of Asian economies continue to receive a heavy volume of foreign aid funds. China is the world's largest ODA recipient, taking in a total of \$2.6B during 1996. India (\$1.9B), Indonesia (\$1.1B) and Bangladesh (\$1.3B) benefited from substantial aid flows as well.<sup>6</sup> The region attracts a large share of other forms of official finance as well; seven Asian economies accounted for some 40% of medium- and long-term global export credits committed and outstanding during 1996.<sup>7</sup>

*U.S. Foreign Aid.* America's contribution to the volume of foreign aid flowing into Asia is minor at best, and budget cuts implemented by Congress are likely to reduce donations further. Although the United States was the second largest ODA donor in 1996—at \$9.1B—only a small portion of these funds were directed at Asia (about \$445M in 1996 and 1997)<sup>8</sup>. (See Figure 4-D and Data Table 4.) American military assistance to the region similarly is tiny, totaling only \$6.6M in 1997 for International Military Education and Training (IMET). The activities of the Export-Import Bank and the Overseas Private Investment Corporation in Asia are somewhat more substantial. U.S. government financing in the form of loans, guarantees, and insurance for American companies operating in the region totaled about \$4.8B in FY 1995.<sup>9</sup>

*Japanese Foreign Aid.* Japan's aid program also faces pressures at home. Budget cuts and a depreciating currency resulted in a substantial 35% reduction—to \$9.4B—in Japan's 1996 dollar-based ODA from the previous year's levels. Japan's bilateral aid to Asia is stronger than U.S. aid, but declined in 1996. (See Figure 4-E.) The heavy Asian focus that characterizes Japanese ODA—over 50% of Japan's bilateral aid is targeted at its own backyard—gives Tokyo a high profile in the region. Some 15 Asia-Pacific countries—among them China, India, and Indonesia—rate Japan as their largest single aid donor.<sup>10</sup> Other Japanese government financing organizations are highly active in Asia as well; the Export-Import Bank of Japan extended about \$8.5B in loans and credits for projects in the region during the fiscal year ending in March 1996.<sup>11</sup>

<sup>6</sup> OECD, *Development Co-operation 1997*, ([www.oecd.org/dac/html/dacstats/oda5096.xls](http://www.oecd.org/dac/html/dacstats/oda5096.xls)).

<sup>7</sup> Raymond Albright, "EXIM Bank and OPIC: Trade Promoters of Welfare Pariahs?", Council on Foreign Relations Unpublished Working Paper, February 1997, Appendix Table 3.

<sup>8</sup> Agency for International Development (USAID), *Congressional Presentation, Summary Tables, FY 1997, Part II*.

Note: In contrast to foreign aid figures presented by the Development Assistance Committee (DAC), U.S. government statistics also include military and other forms of assistance. U.S. aid includes foreign military financing (FMF) arrangements, primarily with Israel (\$1.8B) and Egypt (\$1.3B).

<sup>9</sup> Albright, *Ibid.*, Appendix Tables 1 and 2.

<sup>10</sup> Ministry of Foreign Affairs, Japan, *Japan ODA Summary 1996*, (<http://www2.nttca.com:8010/infomofa/oda/sum1996>).

<sup>11</sup> Export-Import Bank of Japan, *Annual Report 1996*.

Figure 4-D

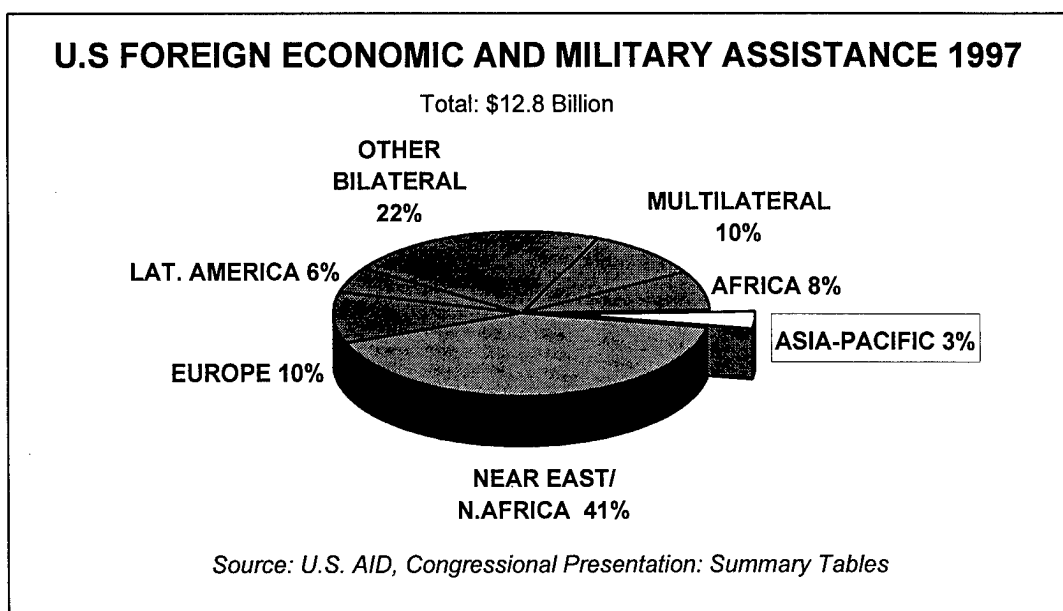
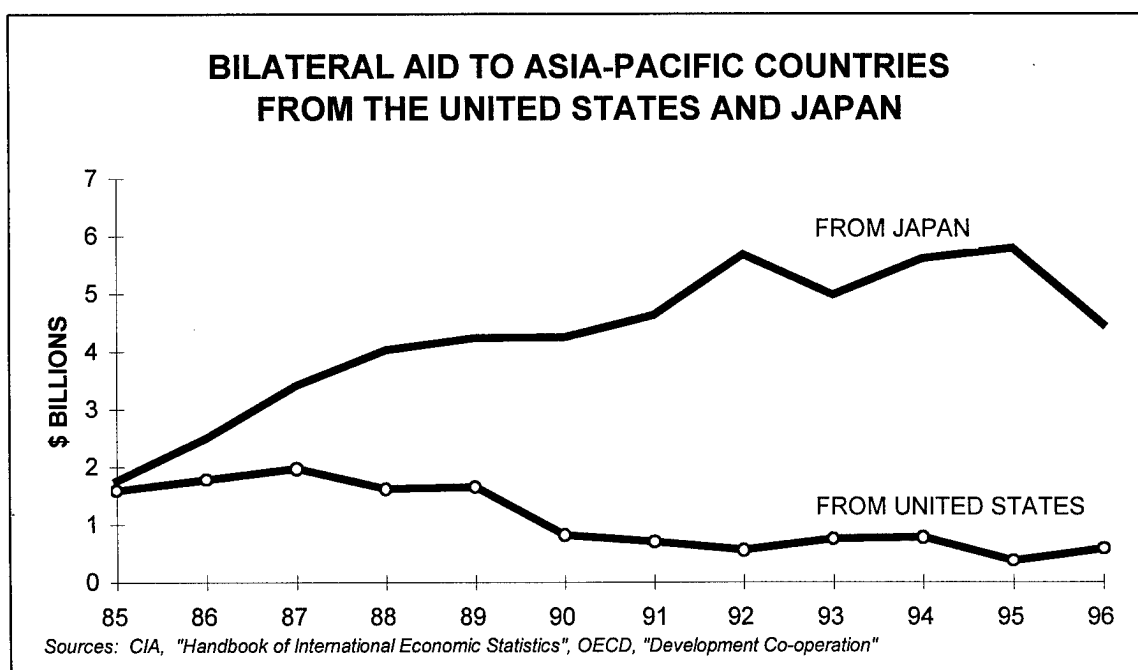


Figure 4-E





## SECTION III

### ECONOMICS AND SECURITY LINKAGES

*"In the last 100 years we've fought seven foreign wars; five in part or in whole were in Asia. But due to political stability created by growth and prosperity in Asia, along with our military presence in the region, none of them came in the last 20 years."*

*George Tenet,  
Director of the Central Intelligence Agency,  
Before Senate Select Intelligence Committee,  
January 28, 1998*

*"What are the enduring features of the Asian security landscape? First and foremost are the high stakes involved, as great as anywhere on the planet. Asia remains a concentration of powerful states with sizable militaries, some nuclear armed. It is a region of great global economic importance and significant regional interdependence. And it is an area with numerous navigational choke points, sea lanes that are the economic arteries carrying the lifeblood of many of our economies. These high stakes make stability crucial for all countries of the region."*

*William S. Cohen, Secretary of Defense,  
Speech on U.S. Asia-Pacific Security Strategy,  
Singapore, January 15, 1998*

## CHAPTER 5

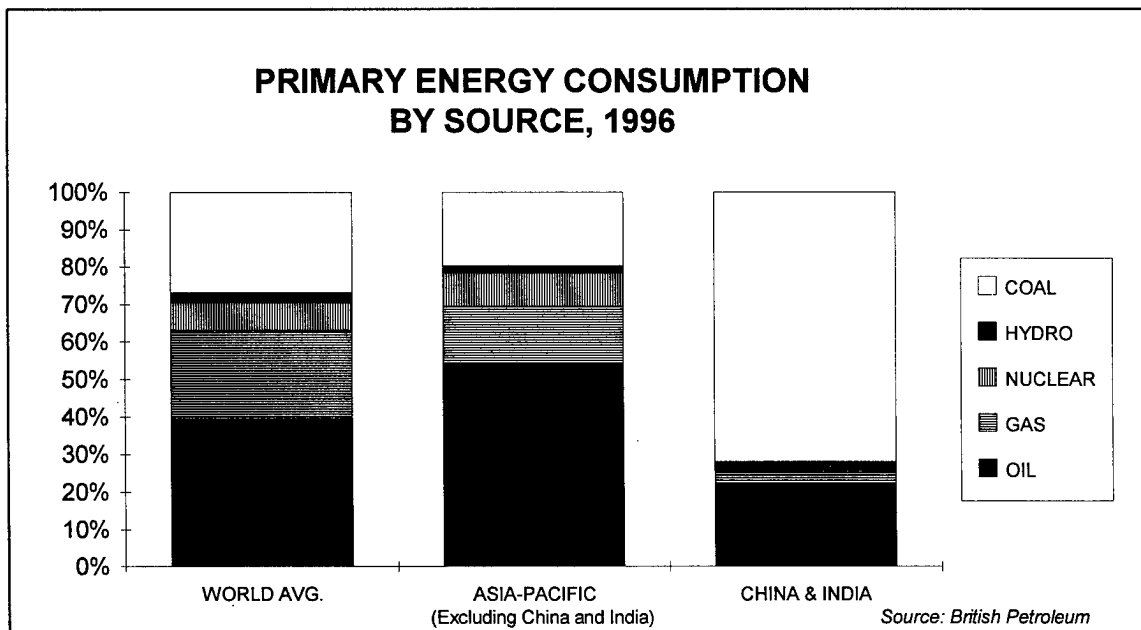
### ENERGY AND SECURITY

Economic growth and changing lifestyles have created a growing demand for energy in the Asia-Pacific region over the last decade. Coal and oil are the region's primary energy sources, although reliance on natural gas and nuclear power is also growing. By early next century, the Asia-Pacific region is expected to be the world's largest energy market—with China and India playing dominant roles.<sup>1</sup> The ongoing Asian financial crisis will restrain the growth of energy demand for a period; however, energy demand is expected to continue to outstrip supplies throughout the region. Many Asian countries are relying on imports—particularly oil—to satisfy their energy needs. Consequently, political and economic linkages are developing between Asia and the rest of the world, especially the oil producing nations of the Middle East.

#### Energy Overview

An analysis of world energy consumption reveals that the Asia-Pacific region does not represent a homogenous grouping. Rather, China and India are unique because of their large size and high reliance on coal.<sup>2</sup> (See Figure 6-A.) The rest of the Asia-Pacific region relies heavily on oil. However, as the modern economic sectors of China and India expand their use of oil, natural gas and nuclear energy, the future course of regional energy consumption will become more integrated.

Figure 6-A



<sup>1</sup> EIA, "EIA Projects Developing Asia to Outstrip U.S. Energy Demand by 2005", *EIA News Releases*, Volume 2/1997.

<sup>2</sup> British Petroleum Co., *Statistical Review of World Energy 1997*, June 1997 ([www.bp.com/statdata.html/fuelcons.wks](http://www.bp.com/statdata.html/fuelcons.wks)).

*Coal.* Coal is the major source of energy to the large, traditional economic sectors of China and India, supplying 76% of China's energy and 57% of India's energy. In estimates made prior to the Asian economic crisis, the U.S. Energy Information Administration (EIA) forecast that by the year 2015 coal's demand in China and India will be twice the 1,791 million short tons consumed in 1995.<sup>3</sup> Other developing countries in Asia will increase coal consumption by 49%, while Japan will see a modest 8% increase between 1995 and 2015. The Asia-Pacific region is well endowed with coal, especially China, Australia, India, and Indonesia. At present production rates, the world's known coal reserves will last 224 years, and those in the Asia-Pacific region will last 152 years.<sup>4</sup>

*Oil.* Oil is the key energy source powering the dynamic economic sectors of the Asia-Pacific region. When excluding China and India, oil accounted for 54% of the region's energy consumption in 1996. Between 1995 and 2015, China's oil consumption is expected to increase 2.6 times, while that of India and the rest of Developing Asia is expected to double.<sup>5</sup> Assuming constant production rates, the world's known oil reserves would last 42 years, although the lesser oil reserves in the Asia-Pacific region would last until only 2010.<sup>6</sup>

*Natural Gas.* Natural gas provided 9% of the Asia-Pacific region's energy needs in 1996. The Asia-Pacific region will likely witness strong demand for natural gas in the future.<sup>7</sup> By the year 2015, natural gas consumption in the Asia-Pacific region is expected to reach 26.5 trillion cubic feet, which is three times the current level. At present production rates, the world's natural gas reserves will last 62 years.<sup>8</sup>

*Nuclear Energy.* Nuclear energy provided 5% of the Asia-Pacific region's energy demand in 1996, although in some countries the proportion is much higher. High nuclear power capacities are currently found in Japan (39.9 gigawatts in 1995), South Korea (9.1 gigawatts), and Taiwan (4.9 gigawatts).<sup>9</sup> The Asia-Pacific region is actively adding nuclear capacity. China, India, Japan, North Korea, South Korea, Pakistan, and Taiwan have plans to expand current nuclear power programs, and Indonesia anticipates its first nuclear power plant within ten years. Between 1995 and 2015, nuclear capacity is estimated to increase nine-fold in China, quadruple in India, and double in South Korea.<sup>10</sup>

*Hydroelectric Power.* Hydroelectric power provides about 2% of the Asia-Pacific region's energy needs, but that figure is expected to grow. China and India will likely see consumption of hydroelectricity and other renewable resources triple from 2.5 quadrillion Btu in 1995 to 7.2 quadrillion Btu in 2015.<sup>11</sup>

<sup>3</sup> Energy Information Administration (EIA), *International Energy Outlook 1997*, May 1997, Table A5 ([www.eia.gov/oaif/ieo97/appa1.html](http://www.eia.gov/oaif/ieo97/appa1.html)). All forecasts given here are based on pre-economic crisis conditions.

<sup>4</sup> British Petroleum Co., *Statistical Review of World Energy 1997*, June 1997 ([www.bp.com/statdata.html/coalres.wks](http://www.bp.com/statdata.html/coalres.wks)).  
<sup>5</sup> EIA, *International Energy Outlook 1997*, May 1997, Table A3.

<sup>6</sup> British Petroleum Co., *Statistical Review of World Energy 1997*, June 1997 ([www.bp.com/statdata.html/oilres.wks](http://www.bp.com/statdata.html/oilres.wks)).  
<sup>7</sup> EIA, *International Energy Outlook 1997*, May 1997, Table A4.

<sup>8</sup> British Petroleum Co., *Statistical Review of World Energy 1997*, June 1997 ([www.bp.com/statdata.html/oilres.wks](http://www.bp.com/statdata.html/oilres.wks)).  
<sup>9</sup> EIA, *International Energy Outlook 1997*, May 1997, Table A6, p. 78.

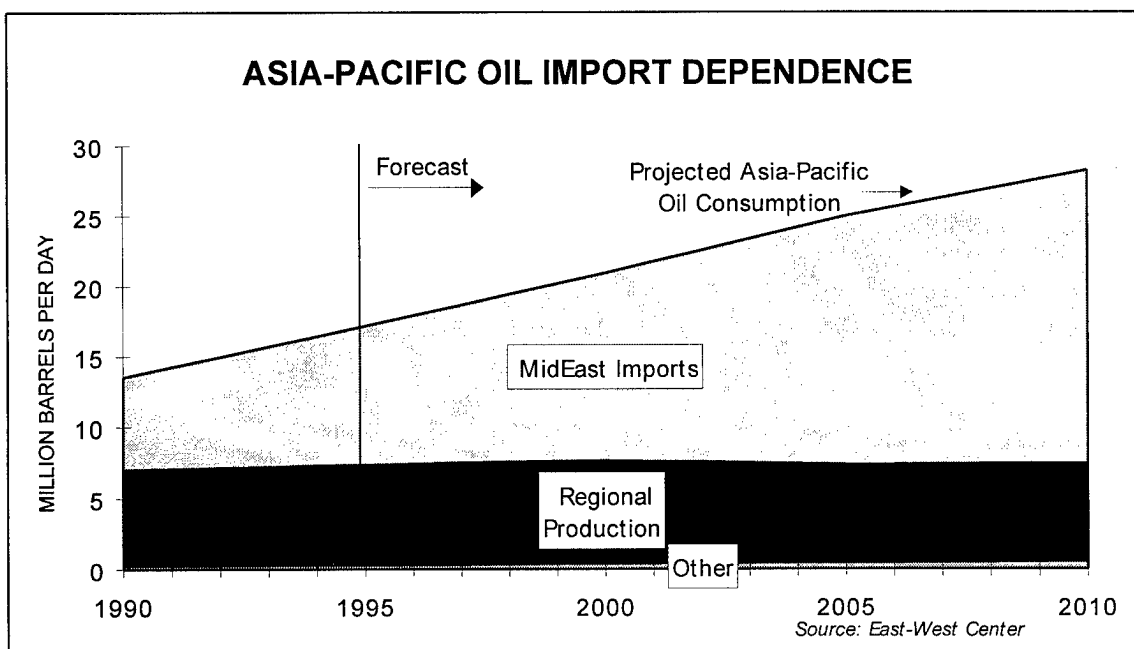
<sup>10</sup> EIA, *International Energy Outlook 1997*, May 1997, Table A6, p. 78.  
<sup>11</sup> EIA, *International Energy Outlook 1997*, May 1997, Table A7.

## Energy's Strategic Implications

From a political and security perspective, oil is perhaps the Asia-Pacific region's the most important energy source. Asia's modern economic sectors rely heavily on oil to power its industries and transportation. The security of oil markets helps under-pin internal socio-economic growth within Asian countries, and promotes regional and global cooperation in economic and political spheres.

Oil dependence on Middle East sources will grow. The Middle East supplies over half of the oil demand of the Asia-Pacific region. In 1995, the Middle East supplied 56% of the Asia-Pacific region's total oil consumption, and is projected to supply 63% in 2000, and 74% in 2010.<sup>12</sup> (See Figure 6-B.)

Figure 6-B



For individual countries, the share of Persian Gulf oil in total oil consumption is high for Japan (70%) and South Korea (74%). When adding oil refined by Singapore - which is primarily obtained from the Middle East - to oil imports coming directly from the Middle East, other countries showing high dependencies on Middle East oil include the Philippines (85%), Taiwan (61%), and Thailand (48%). Similarly, about 8% of China's and 20% of Australia's oil consumption is supplied directly by Middle East oil import or by way of Singapore refineries.<sup>13</sup> The Persian Gulf share of U.S. oil consumption was 9% in 1996.

<sup>12</sup> East-West Center energy database, May 1996.

<sup>13</sup> Blackwell Energy Research, *World Oil Trade*, September 1997; British Petroleum, *Statistical Review of World Energy 1997* ([www.bp.com/statdata.html](http://www.bp.com/statdata.html)); Japan: EIA, *International Petroleum Statistics Report*, Table 4.11, December 1997; EIA, *Country Energy Data Report* (webpage series, [www.eia.doe.gov/world/country/](http://www.eia.doe.gov/world/country/)); and East-West Center Energy Database.

The Asia-Pacific region will experience increased dependence on political stability in the Middle East. Some argue that growing economic linkages (especially vis-à-vis oil) between the two regions drives arms sales between Asia and the Middle East—particularly between China and Iran. Non-oil producing countries of the region will continue to experience bilateral deficits in their balance of payments with oil producing countries. For example, the Philippines will most likely need to continue exporting labor overseas to Arabian Gulf states to help pay for oil imports.

The region's dependence on Arabian Gulf oil sharply contrasts with the United States, where Venezuela, Canada, Mexico, and the North Sea will remain key external sources for the U.S. energy market. Nevertheless, the United States is expected to increase the overall share of imports in its oil consumption from 44% in 1995 to 61% in 2015.<sup>14</sup>

China's oil demands are growing and outstripping its domestic oil production.<sup>15</sup> China will be increasingly reliant on external sources for oil. The Middle East will continue to be China's primary source of externally supplied oil. China's partial reliance on the transit of Middle East oil through the Indian Ocean and the straits of Southeast Asia will be significant to China's approach to international relations and may be a motivating factor behind China's desire to expand and modernize its navy. Moreover, China's growing political involvement in Burma (Myanmar) is linked, according to some observers, by a desire to establish naval facilities on the Indian Ocean (necessitated in part by an interest in protecting sea lanes that could be used to transport oil to China).<sup>16</sup>

While countries on the periphery of the South China Sea hope to find oil in the Spratly Islands, the economic importance of the Spratlys is easily overstated. Most sites for oil and gas are anticipated to be found along coastal areas, within Exclusive Economic Zones of countries of the South China Sea. Under optimistic assumptions, the oil potential of the Spratly Islands is modest, at no more than 200 to 300 million barrels, equating to the reserves of Brunei.<sup>17</sup>

Keen on ensuring its future access to global oil supplies, China has recently entered into major agreements with Kazakhstan, Iraq, and Venezuela.<sup>18</sup> Growing oil imports from the Middle East to Asia will also sharpen the strategic importance of shipping lanes. Protection of vital Sea-Lanes of Communication (SLOCs)—such as the Malacca Strait—will likely become an even greater priority in the region. An indication of this trend is the increased naval spending in the Asia-Pacific region, which is driven at least partly by a desire to protect oil shipments.<sup>19</sup>

---

<sup>14</sup> EIA, *Annual Energy Outlook 1997*, December 1996 ([www.eia.gov/aco97](http://www.eia.gov/aco97)), and Richard Teitelbaum, "Your Last Big Play in Oil", *Fortune*, October 30, 1995.

<sup>15</sup> EIA, *Country Analysis Briefs* ([www.eia.doe.gov/emeu/cabs/china.html](http://www.eia.doe.gov/emeu/cabs/china.html))

<sup>16</sup> Mohan Malik, "Burma Slides Under China's Shadow," *Jane's Intelligence Review*, July 1, 1997.

<sup>17</sup> East-West Center estimate.

<sup>18</sup> Tony Walker and Robert Corzine, "China Buys \$4.3 bn Kazakh Oil Stake," *Financial Times*, June 5, 1997; and "Oil in China," *EIU Business China* (Economist Intelligence Unit), June 23, 1997.

<sup>19</sup> "Asia's New Energy Equation," *EIU Business Asia* (Economic Intelligence Unit), August 12, 1996.



## CHAPTER 6

### SHIPPING AND COMMERCE

A fundamental factor contributing to Asia's recent economic dynamism has been the free passage of shipping along sea-lanes of the Asia-Pacific, especially through the straits of Southeast Asia. Dramatic expansion in the volume of commerce flowing into and out of the Asia-Pacific region has sharply raised the security value of Asia's shipping lanes not only to Asian countries, but to the United States as well. This chapter describes Asia's shipping facilities, fleets, trade routes, and commodity flows and their relationship to issues of economic security, maritime piracy, and tensions over claims in the South China Sea.

#### Asia's Merchant Fleets and Shipping Facilities

High trade volumes have led to significant Asian interest in developing merchant fleets and shipping facilities. Asian countries as a whole own 34% - and manufacture 72% - of the world's merchant fleet tonnage. Japan owned 13% of world merchant fleet tonnage in 1995, following Greece's 18% share. The United States and Norway follow, at 7% each, and China owns 5%. The four Newly Industrialized Economies (Hong Kong, Singapore, Taiwan, and Korea) own 12% as a group.<sup>1</sup> Most of today's ships are built in Asia, with Japan taking 35% of the orders for new ships in 1996, Korea 30%, and other Asian countries 7%.<sup>2</sup>

Hong Kong and Singapore rival each other as the world's largest container ports. In 1996, Hong Kong processed 13.3M twenty-foot equivalent units (TEUs),<sup>3</sup> while Singapore handled 12.9M TEUs.<sup>4</sup> Taiwan's Kaohsiung became the world's third largest container port in 1994, processed 5.1M TEUs in 1996, and inaugurated an unprecedented shipping link between Taiwan and China's Fujian Province in April 1997.

The region's shipping infrastructure has been rapidly modernizing. Ports are being expanded in Laem Chabang in Thailand; Bombay, India; Ho Chi Minh City and Cua Lo in Vietnam, Penang and Klang in Malaysia; Indonesia's Batam Island near Singapore; Subic Bay in the Philippines; and at ports along coastal China.<sup>5</sup> Currently, only 25% of China's shipping goes via modern container systems, in contrast to Hong Kong, where 90% is containerized.<sup>6</sup> However, China is by far the world's largest manufacturer of dry freight containers and its port facilities are being modernized.<sup>7</sup>

<sup>1</sup> United Nations Conference on Trade and Development (UNCTAD), *Review of Maritime Transport 1997*, September 1997.

<sup>2</sup> International Association of Ports and Harbors (IAPH), *Biennial Report on Ship Trends - 1997*, ([www.iaph.or.jp/shiptrends\\_97rep.html](http://www.iaph.or.jp/shiptrends_97rep.html)).

<sup>3</sup> The TEU measure, based on a container length of twenty-feet, is a basic unit for expressing the capacity for carrying containers upon vessels that are fully cellular, part-container, or roll-on/roll-off.

<sup>4</sup> Port of Singapore Authority ([www.singapore.gov.sg/portterm/portstats.html](http://www.singapore.gov.sg/portterm/portstats.html)); Hong Kong Marine Department ([www.info.gov.hk/mardep/portstat/portstat.htm](http://www.info.gov.hk/mardep/portstat/portstat.htm)); Kaohsiung Harbor ([www.khb.gov.tw](http://www.khb.gov.tw)).

<sup>5</sup> Far Eastern Economic Review, *Asia Yearbook*, (series).

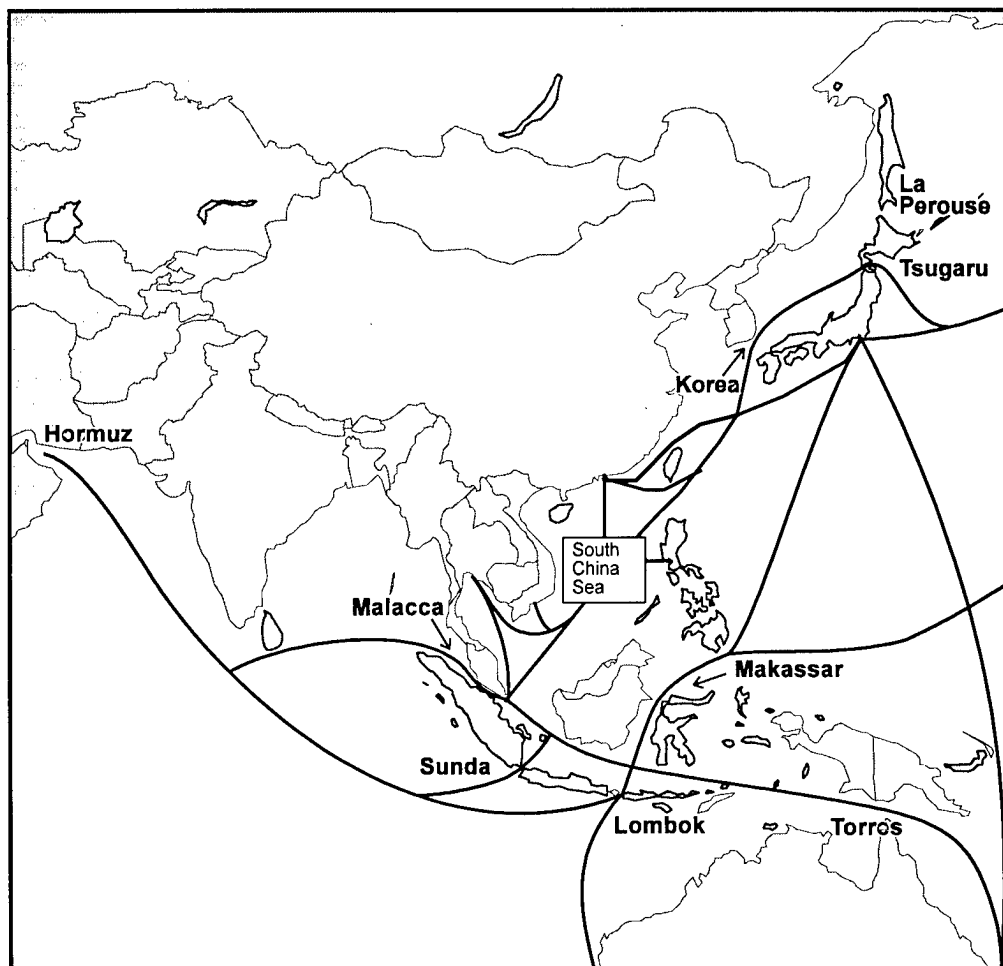
<sup>6</sup> Zubrod, Justin, *et al*, "The Challenges of Logistics in Asia," *Transportation and Distribution*, February 1996.

<sup>7</sup> United Nations Commission on Trade and Development (UNCTAD), *Review of Maritime Transport 1995*, ([www.unctad/en/pressref/nlmt9c10.html](http://www.unctad/en/pressref/nlmt9c10.html)).

## Asian Shipping Routes

Shipping in the Asia-Pacific region is characterized by dense traffic movement through straits and along coastlines combined with long-distance, open-ocean transit. Figure 6-A shows major maritime trade routes linking the trading economies of the region to the rest of the world.

Figure 6-A  
Major Trade Routes and Straits



Most trade through Southeast Asia moves by sea since many countries of Southeast Asia are either peninsular or insular, and infrastructure for land transport structure is not well developed. The major sea lines of communication (SLOCs) are constricted at several key straits, the most important of which are located in Southeast Asia: the Malacca, Sunda, Lombok, and Makassar straits.<sup>8</sup> These SLOCs cross the waters of Malaysia, Indonesia, and Singapore, with Singapore's port facilities serving as a major link for refueling and transshipment. The overall pattern of shipping is that large tonnages of low-value resources are shipped through Southeast

<sup>8</sup> Peele, Reynolds, "The Importance of Maritime Chokepoints," *Parameters*, Summer 1997; Department of Defense, *National Security and the Convention on the Law of the Sea* (2d ed.), January 1996.

Asian SLOCs to industrial economies (Japan and the Four NIEs) in the North, who then "add value" via manufacturing processes. These industrial economies then ship out relatively smaller tonnages of high-value goods, much of which goes through the Southeast Asian SLOCs or on trans-Pacific routes. Generally, crude oil is the biggest single cargo in terms of volume through the SLOCs of Southeast Asia, while finished consumer goods are the dominating cargo in terms of value.<sup>9</sup>

The busiest route follows the Strait of Malacca, whose crowded, shallow, and narrow passages are a concern for maritime and environmental safety. Over 1,100 fully laden supertankers pass eastbound through the strait each year, many with only a meter or two of clearance between their keels and the channel bottom.<sup>10</sup> An average of 7.8 million barrels of oil transit the Strait of Malacca every day.<sup>11</sup> While the Sunda and Lombok-Makassar straits are superior to the Strait of Malacca in terms of depth and width, they are less accessible and possess inferior navigational aids in comparison to Malacca.<sup>12</sup> The Lombok Strait primarily is used in shipping Australian-origin dry bulk, coal, iron ore and grain to northern markets. Routes also are constricted in the South China Sea, where traffic occurs along coastal areas due to the extensive shallowness of the Spratly Islands. Half the shipping volume passing the Spratly Islands is crude oil from the Arabian Gulf.

Over 15% of all the world's cross-border trade passes through Southeast Asia every year. Two-way trade transiting these SLOCs is important not only for the economies of Southeast Asia but also for Japan, Europe, and the NIEs of Hong Kong, Taiwan, and South Korea, as well as the United States and China.<sup>13</sup>

Most of the ships transiting these SLOCs are "flagged out" to countries such as Panama and Liberia, and are owned by other countries, principally Japan, but also Greece, the United States, Great Britain, and Singapore.<sup>14</sup>

---

<sup>9</sup> Noer, John, and David Gregory, *Chokepoints: Maritime Economic Concerns in Southeast Asia*, National Defense University, October 1996; Noer, John, *Southeast Asian Chokepoints*, December 1996 ([www.ndu.edu/ndu/inss/strforum/forum98.html](http://www.ndu.edu/ndu/inss/strforum/forum98.html)); Noer, John, and David Gregory, *Maritime Interests and the Sea Lines of Communication Through the South China Sea: The Value of Trade in Southeast Asia*, Center for Naval Analyses, January 1996.

<sup>10</sup> Noer and Gregory, *ibid.*

<sup>11</sup> EIA, *World Oil Transit Chokepoints*, April 4, 1997 ([www.eia.doe.gov/emeu/cabs/choke.html](http://www.eia.doe.gov/emeu/cabs/choke.html)).

<sup>12</sup> Abdullah, Ym Raja Jalil, "Alternative Routes - Bulk, Oil and Container Trade: Comparative Vessels Costs," *Proceedings of the Kuala Lumpur Workshop on the Strait of Malacca*, Malaysian Institute of Maritime Affairs, January 1994.

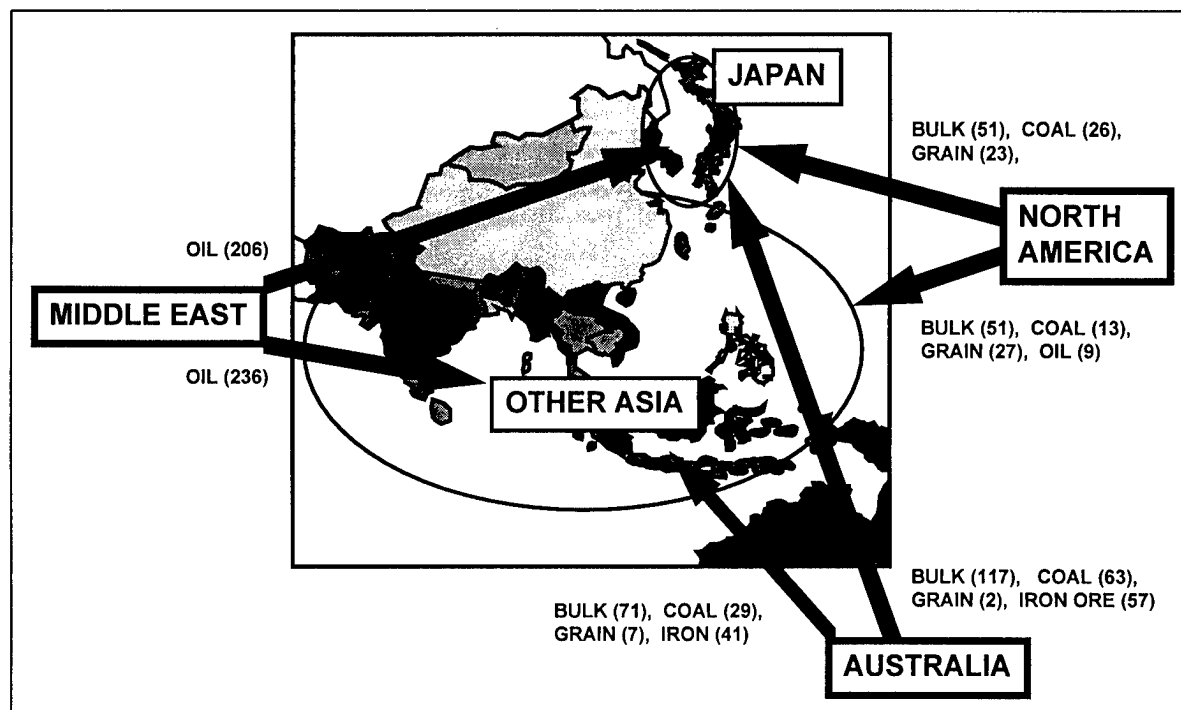
<sup>13</sup> Noer and Gregory, *ibid.*

<sup>14</sup> Noer and Gregory, *ibid.*

## Commodity Flows

Cargo flowing into Asia typically includes dry bulk goods, grain, coal, and iron ore from North America and Australia, as well as oil from the Middle East. [Figure 6-B.] Outgoing cargoes consist primarily of dry bulk goods.<sup>15</sup>

Figure 6-B  
Major Commodity Flows to Asia (1994)  
in Million Metric Tons



Sources: Fearnley's and OECD

## Freedom of Navigation

A Center for Naval Analyses study concludes that, in addition to the obvious economic interests among Southeast Asian countries in maintaining commerce, Japan and the countries of Northeast Asia also have direct economic interests in the freedom of navigation of the Strait of Malacca.<sup>16</sup> Australia has a similar direct interest in the Lombok-Makassar straits. The study suggests further cooperation among local and regional navies to work out practical considerations of interoperability should disruptions occur. Disruptions to the freedom of navigation in Malacca would lead to insurance increases, and detours through the Lombok or Makassar straits would cause a large jump in freight rates. However, in the long run additional shipping capacity would be added, and - in a Malacca-closure scenario - consumer costs would increase only by about 0.2%.

<sup>15</sup> Fearnley's, *World Seaborne Trade* (<http://cybercomm.no/NR/ki4/3e.html>); Organization for Economic Cooperation and Development (OECD), *Maritime Transport 1994*, Tables 3,6,7, and 9, July 1996; and OECD, *Annual Report: Maritime Transport 1994* ([www.oecd.org/transport/mtc/mtc15.html](http://www.oecd.org/transport/mtc/mtc15.html)).

<sup>16</sup> Noer and Gregory, *ibid*.

## Maritime Piracy

Maritime piracy incidents present a potential threat to commercial shipping in Southeast Asia.<sup>17</sup> In 1997, the International Chamber of Commerce (ICC) International Maritime Bureau Piracy Center in Kuala Lumpur, Malaysia, recorded an unprecedented 105 pirate attacks in East and Southeast Asia.<sup>18</sup> Moreover, this number may be substantially lower than the actual number of incidents, due to widespread underreporting.<sup>19</sup> Among the hardest hit areas are the Strait of Malacca, the triangular area that borders Hong Kong, Hainan Island (China), and Luzon (Philippines), and the area around the Philippines.<sup>20</sup> One expert has also identified the waters around the Indonesian archipelago as being a high-risk piracy zone.<sup>21</sup> Growing evidence suggests that piracy in the Asia-Pacific region is tied to organized crime. Among other things, "vessels are systematically hijacked with their cargoes and taken elsewhere for disposal or to be put to other uses."<sup>22</sup> Such systematic robbery indicates that an organized criminal infrastructure may exist behind what appear to be sporadic criminal events. Moreover, there is evidence that some pirate groups work in cooperation with corrupt officials in some littoral countries in the region.<sup>23</sup> Multilateral efforts, such as coordination with the activities of the International Maritime Bureau, are being promoted to stem further challenges to international economic security. Piracy and its terrorism may also be an appropriate agenda item for such organizations as the ASEAN Regional Forum (ARF) and the Asia Pacific Economic Cooperation (APEC).

## Tension over Claims in the South China Sea

The existence of unresolved territorial claims in the South China Sea remains a source of potential instability to the area.<sup>24</sup> The Philippines, Vietnam, Malaysia, China, and Taiwan have made territorial claims to all or part of the Spratly Islands. Brunei has made maritime claims extending into the disputed area. Both China and Taiwan have made imprecise claims covering most of the South China Sea, while official statements refer to island groups in name only. A seventh country, Indonesia, also possesses significant oil and gas potential in the nearby Natuna Island area.<sup>25</sup>

In 1992, ASEAN member countries issued the "ASEAN Declaration on the South China Sea," which called on all parties to "resolve all sovereignty and jurisdictional issues pertaining to the South China Sea by peaceful means." The Declaration also urged all parties to exercise restraint and to cooperate on maritime safety, pollution, search and rescue, and combating piracy and drug trafficking. The United States and China subsequently made statements of support for the ASEAN Declaration. In 1995, tensions increased when China occupied and established

<sup>17</sup> Kenny, Henry J., *An Analysis of Possible Threats to Shipping in Key Southeast Asian Sea Lanes*, Center for Naval Analyses Occasional Paper, February 1996.

<sup>18</sup> International Chamber of Commerce, *Piracy on the Increase and More Violent*, January 23, 1998 ([www.iccwbo.org/html/](http://www.iccwbo.org/html/)).

<sup>19</sup> "Piracy Attacks in Asia Under-Reported—Claim," *Reuters World Service*, April 22, 1997.

<sup>20</sup> "Piracy Hot Spots Around the World," *Jane's Navy International*, v. 102, n. 3, April 1, 1997.

<sup>21</sup> "Asian Cooperation Urged in Fight Against Piracy, Drugs," *Reuters World Service*, May 7, 1997.

<sup>22</sup> Eric Ellen, "Bringing Piracy to Account," *Jane's Navy International*, v. 102, n. 3, April 1, 1997.

<sup>23</sup> Seth Faison, "Pirates, with Speedboats, Reign in China Sea Port," *The New York Times*, April 20, 1997.

<sup>24</sup> Cossa, Ralph, *Security Implications of Conflict in the South China Sea*, Pacific Forum/CSIS, June 1996; Kenny, Henry J., "The South China Sea: A Dangerous Ground," *Naval War College Review*, Summer 1996; Marc Valencia, Jon Van Dyke and Noel Ludwig, *Sharing the Resources of the South China Sea*, May 1997.

<sup>25</sup> USCINCPAC Research and Analysis Division, *South China Sea Reference Book*, April 1996.

facilities at Mischief Reef well within the Philippines' claimed 200 nautical mile Exclusive Economic Zone.<sup>26</sup> The Philippines subsequently removed Chinese claim markers in the area.

The United States has issued statements advocating freedom of navigation, peaceful measures to resolve differences, and the use of international law, especially the 1992 United Nations Convention on the Law of the Sea,<sup>27</sup> which, with the exception of Taiwan, the six claimants have signed. The United States has taken no position on the legal merits of competing sovereignty claims and supports peaceful resolution of claims and peaceful development of resources. In addition to dependence on freedom of navigation through the South China Sea, U.S. interests include an open economic region that adheres to principles of international law. The free flow of shipping enhances global trade and regional economic development. Further, regional stability and growth are reinforced by peaceful settlement of disputes and a preference for the rule of law. The threat or use of military force would be seen as disrupting regional peace, prosperity, and security.

---

<sup>26</sup> U.S. Department of State, Bureau of Oceans and International Environmental and Scientific Affairs, *Limits in the Seas Number 36: National Claims to Maritime Jurisdiction*, January 11, 1995.

<sup>27</sup> Department of Defense, "National Security and the Convention on the Law of the Sea," July 1994.

## CHAPTER 7

### DEFENSE SPENDING AND ARMS TRADE

The Asia-Pacific region's past economic growth afforded opportunities for increased defense spending and military modernization. The ongoing economic crisis in Asia places a significant burden on further military development, the extent of which will be determined by the scope and duration of the economic crisis. This chapter examines Asia's historical military spending trends and the arms trade. While there is no arms race in Asia at the present time, the People's Republic of China and several other nations are modernizing their forces. Thus, there is a continuing need for prudence in arms sales, increased transparency, expanded security dialogue, and American military engagement in the region to discourage any disproportionate buildup. This perspective is consistent with the *United States Security Strategy for the East Asia-Pacific Region*<sup>1</sup> and the Presidential Decision Directive, *Conventional Arms Transfer*.<sup>2</sup>

#### Asia-Pacific Spending Trends

The world's six largest armed forces operate in the Asia-Pacific region.<sup>3</sup> China has the world's largest force (2.8M personnel in 1997), followed by the United States (1.5M) and Russia (1.2M). Three Asian countries come next -- India (1.1M), North Korea (1.1M), South Korea (0.67M) -- followed by Turkey (0.64M), Pakistan (0.59M), Iran (.52M), and Vietnam (0.49M).

Many Asian governments have embarked on programs of arms procurement and military modernization over the last decade. However, in absolute terms, defense expenditures in the Asia-Pacific region have been stable or increasing at a moderate pace.<sup>4</sup> (See Figure 7-A and Appendix C, Table 5.)

In comparison to the rest of the world, Asia-Pacific defense expenditures exceed those of the Middle East and other developing regions, and almost match spending in Western Europe. However, Asia-Pacific countries generally spend less on defense on a percent-of-GNP basis than the world average.

Over the ten-year period between 1985 and 1995, average annual defense spending in the region grew 2.3% per year after correcting for inflation. During that same time period, average annual defense spending in the United States decreased 2.8%, while spending in Western Europe declined 1.3%. Asian countries with long-term real growth in defense expenditures over the period from 1985 to 1995 have been Sri Lanka (10.2% annual increase), Singapore (5.9%), Malaysia (5.9%), Burma (5.8%), South Korea (5.2%), the Philippines (4.5%), Pakistan (4.5%) and Japan (3.0%). Pacific Island countries showing strong growth in military spending were Papua New Guinea (6.3%) and Fiji (5.3%).

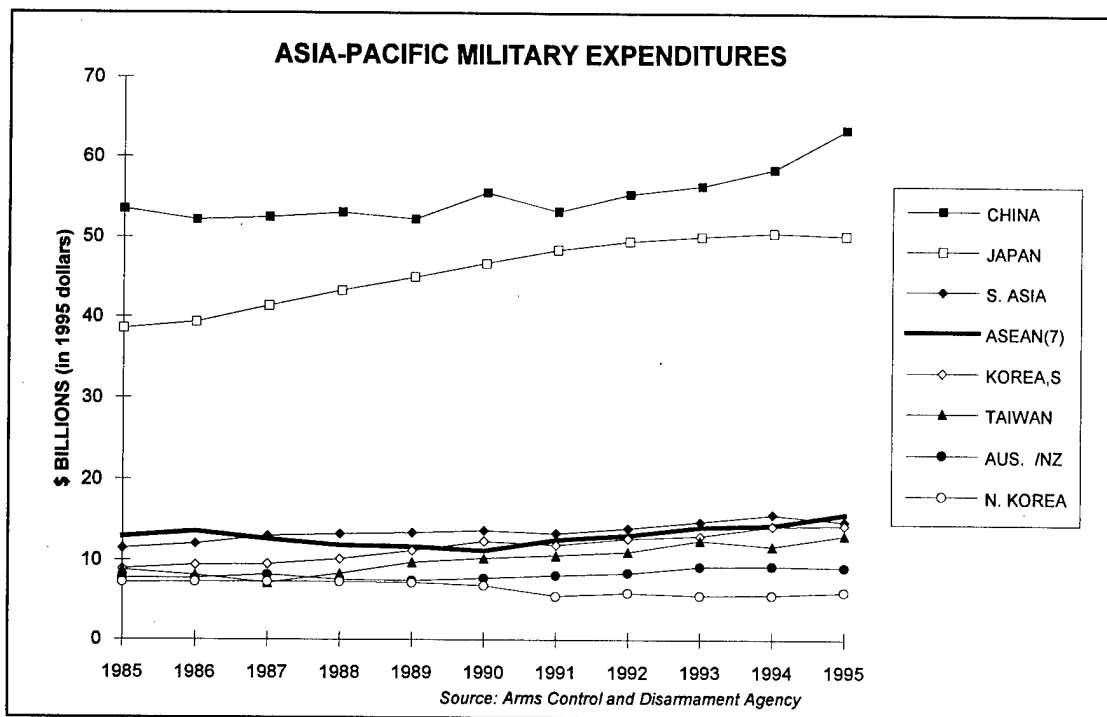
<sup>1</sup> Department of Defense, Office of International Security Affairs, *United States Security Strategy for the East Asia-Pacific Region*, February 1995.

<sup>2</sup> Office of the President, *Presidential Decision Directive-34, "Conventional Arms Transfer,"* February 17, 1995.

<sup>3</sup> International Institute for Strategic Studies (IISS), *The Military Balance 1997/98*, October 1997, ([www.isn.ethz.ch/iiiss/](http://www.isn.ethz.ch/iiiss/)).

<sup>4</sup> ACDA, *World Military Expenditures and Arms Transfers 1996*, Table I, April 1997, ([www.acda.gov/wmeat96/96tab1.pdf](http://www.acda.gov/wmeat96/96tab1.pdf)).

Figure 7-A



In contrast to the rise in absolute spending, the share of military spending in Gross National Product (GNP) has been declining in the Asia-Pacific region, as is the case for the world average since 1986.<sup>5</sup> Military spending as a percent of GNP is expected to continue to decline in the near future for all regions of the world, including Asia.

Northeast Asia, including China, Japan, North and South Korea, and Taiwan, has the highest level of military expenditures in the Asia-Pacific region. China's defense spending is by no means transparent. Much of the reported annual increases in China's official budget have been absorbed by China's high inflation rates. However, the largest problem in estimating defense spending arises from inadequate accounting methods for the Peoples Liberation Army (PLA). Budgeted functions are hidden under construction, administrative expenses, and under state organizations such as the Commission on Science, Technology and Industry for National Defense (COSTIND), which mix PLA and other state activities. Sources of income outside the national defense budget include official local and regional government expenses for local army contributions, pensions, militia upkeep and off-budget income from PLA commercial enterprises and defense industries, as well as income from international arms sales and unit-level production (e.g. farming). The official Chinese defense budget for 1995 was estimated at \$7.6B; however, Chinese estimates do not follow common accounting methods. The International Institute for Strategic Studies' (IISS) figure is almost four times (\$31.7B),<sup>6</sup> while the U.S. Arms Control and Disarmament Agency (ACDA) estimate (\$63.5) is eight times the Chinese figure.<sup>7</sup> RAND Corporation offers significantly higher estimates. Therefore, according to some estimates, China is the biggest spender on defense in the region.

<sup>5</sup> ACDA, *World Military Expenditures and Arms Transfers 1996*, Table I, April 1997, ([www.acda.gov/wmeat96/96tab1.pdf](http://www.acda.gov/wmeat96/96tab1.pdf)).

<sup>6</sup> International Institute for Strategic Studies (IISS), *The Military Balance 1997/98*, October 1997, ([www.isn.ethz.ch/iiss/](http://www.isn.ethz.ch/iiss/)).

<sup>7</sup> ACDA, *World Military Expenditures and Arms Transfers 1997*, Table I, April 1997.



Japan has the second highest level of defense spending in the region, even though it is politically committed to maintaining its defense spending at no higher than 1% of GNP.

North Korea, with the fifth largest armed force in the world, is an unusual case, with extremely high defense spending in comparison to its overall economic production. North Korea devoted 28.6% of its GNP to the military sector in 1995. Such high levels of spending create internal economic and social pressures that further stress North Korea and the region.

South Asia, which spent \$15B on defense in 1995, is the seat of significant ethnic and religious rivalry. South Asian countries spend high levels on defense relative to their trade figures.

Southeast Asia spent \$12B in 1995 on defense. Spending patterns may change as tensions subside after the assimilation of Vietnam into ASEAN in 1995. However, new tensions have been created over increased military activities in the South China Sea and civil unrest in Cambodia and Burma.<sup>8</sup> Vietnam saw a significant average annual decrease in defense expenditures of -20% over the period 1985-1995, and in 1997 had the tenth largest armed force in the world. Vietnam's defense share of GNP has declined from 19.4% in 1986 to 2.6% in 1995, making its defense spending comparable to other countries in Southeast Asia.

### **Motives for Defense Spending and Arms Acquisition**

Defense analysts have identified several factors that have contributed to an increase in regional defense spending. These can be organized into demand-side and supply-side pressures. Demand-side factors include: economic growth and availability of resources for defense; pursuit of increased prestige and international recognition; uncertainty over the future of U.S. military presence in the region; enhancing conventional self-defense capabilities; potential rise of competing regional powers; increased likelihood of conflict from regional tensions (territorial disputes, competing sovereignty claims, challenges to government legitimacy, and historical animosity); surveillance and protection of Exclusive Economic Zones (EEZs); economic issues (protection of sea lanes, marine resources, and fishing stocks), and environmental issues (pollution, deforestation, and oil spills).

Supply pressures include: the large supply of surplus equipment as a result of the downsizing of western forces; selling equipment for hard, foreign currency; and promoting interoperability of military forces for coalition humanitarian and combat operations.

The primary objectives of defense acquisitions in the Asia-Pacific region appear to be modernization of military forces, adaptation to new requirements for naval and air defense, and procurement of high-tech equipment. Acquisition programs generally emphasize command, control, and communications (C<sup>3</sup>) systems; strategic and tactical intelligence systems; multi-role fighter aircraft; modern surface combatants and submarines; anti-ship missiles; electronic warfare (EW) systems; and rapid deployment forces.

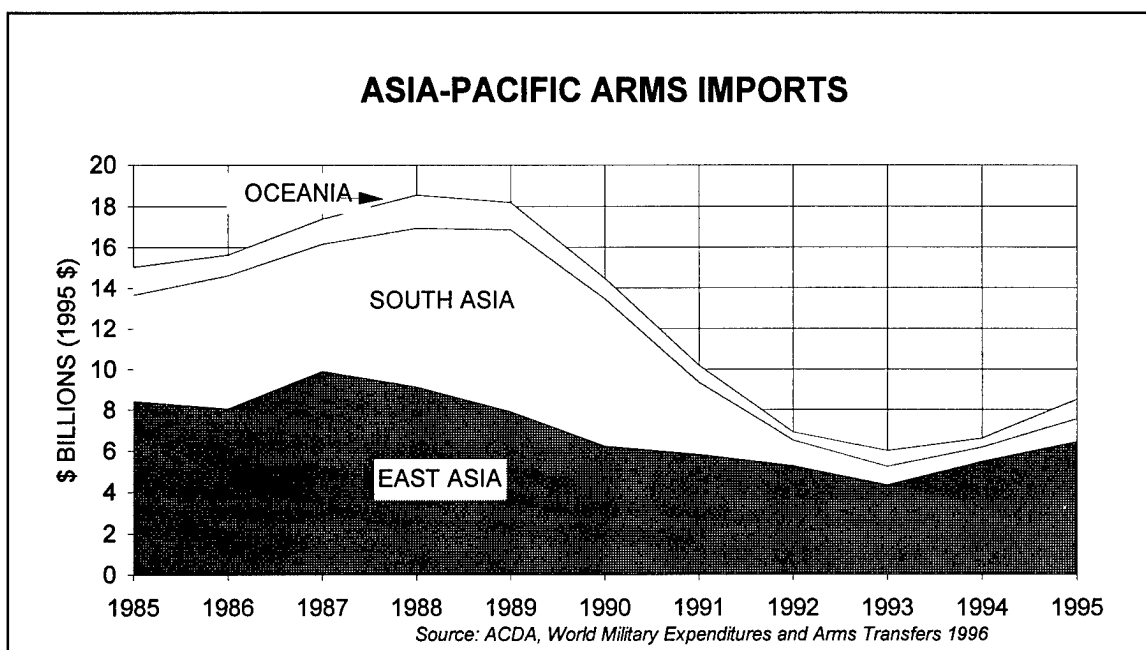
---

<sup>8</sup> IISS, *The Military Balance 1997/98*, October 1997.

## Asian Arms Trade

Asia's large force requirements at the turn of the decade led the region to become an important source of demand for military equipment in the declining global arms market. The Asia-Pacific region's share of world expenditure on arms imports increased from 21% in 1985 to 28% in 1989. The share subsequently declined to 19% in 1993, but climbed to 27% in 1995 due to a relatively faster decline in other parts of the world. The total value of Asian arms imports declined from a peak of \$18.6B in 1988 to \$6.0B in 1993, but then rose to \$8.5B in 1995.<sup>9</sup> (See Figure 7-B.)

Figure 7-B



After the breakup of the Soviet Union, the United States became the dominant supplier of arms to the world, providing one-half of the total in 1993-1995. Since 1989, the United States has been the dominant supplier to East Asia, while Russia and China are the primary suppliers of arms to South Asia.

During the period 1993-1995, the size of the East Asian arms market (\$15.9B) surpassed that of Europe (\$15.7B), but was less than half the size of the Middle East (\$36.9B). The distribution of arms imports among East Asian countries also changed during this Post-Cold War period. Those countries that dramatically reduced imports during this period include Japan, and, primarily due to a drop-off of support from Russia, Vietnam, North Korea, and Cambodia. China saw a peak year of imports in 1992 of \$1.4B, dropped dramatically to \$267M in 1994 and rose to \$725M in 1995. Major Asian arms importers in 1995 were Taiwan (\$1.2B), South Korea (\$1.1B), and Japan (\$625M). Arms sales to the East Asian market (\$15.9B during 1993-1995)

<sup>9</sup> ACDA, *World Military Expenditures and Arms Transfers 1996*, Table II, April 1997, ([www.acda.gov/wmeat96/96tab2.pdf](http://www.acda.gov/wmeat96/96tab2.pdf)). (All ACDA values quoted here are in 1995 dollars)

was led by U.S. merchants, who possessed 51% of that market, in contrast to Russia's share of 14%.<sup>10</sup> Average annual U.S. sales to East Asia were \$2.7B during that period.

South Asia saw a dramatic decline in arms imports from a peak of \$8.9B in 1989 to \$697M in 1994, but rose to \$1.1B in 1995. Arm sales to the South Asian market (\$2.7B during 1993-1995) were led by China (33% share), followed by Russia (28%); the U.S. share was only 4%.

China's arms exports amounted to only 3% of the world total during 1993-1995. Major recipients then were Pakistan (\$625M), Iran (\$490M), and Burma (\$310).<sup>11</sup> China's weapons sales remain controversial. It is unique in that most arms exporters are industrialized countries, while China is still classified as a developing country. Further, China has been accused of not adhering to proliferation pledges under the Missile Technology Control Regime, although China disputes the charge. The reported sale of missiles to Iran and Pakistan, along with low-tech arms to Burma, have been widely criticized in the press and by arms experts. China's arms exports are not transparent. China reports that in 1997 military factories exported \$7 billion worth of goods that are geared primarily for civilian markets. Further, about 1,200 Chinese military firms have absorbed \$4.5 billion in foreign investment from Western companies, such as Boeing and Mercedes-Benz, since China opened to the outside world the late 1970s.<sup>12</sup>

North Korea's arms exports peaked in 1988 with sales of \$874M; however, sales totaled only \$62M by 1995.<sup>13</sup>

### **Prudence in arms sales and technology transfer**

Recent descriptions of defense spending in the Asia-Pacific region have characterized the situation as either a dangerous arms race or as the benign pursuit of weapons modernization. Neither extreme seems to capture the complex nature of Asia's arms market, which is influenced by a broad range of supply and demand factors. Accordingly, several measures are being pursued to prevent the region's acquisition programs from evolving into an arms race.

Prudence in arms sales and technology transfer will enhance regional stability and U.S. security interests. In February 1995, President Clinton approved a comprehensive policy to govern transfers of conventional arms.<sup>14</sup> This policy promotes restraint, both by the U.S. and other suppliers, in weapons transfers that may be destabilizing or dangerous to international peace. At the same time, the policy supports transfers that meet legitimate defense requirements of our friends and allies, in support of our national security and foreign policy interests. The Presidential Advisory Board on Arms Proliferation recommended that:<sup>15</sup>

- Effective restraint requires international cooperation together with U.S. leadership.

<sup>10</sup> ACDA, *World Military Expenditures and Arms Transfers 1996*, Table IV, April 1997. ([www.acda.gov/wmeat96/96tab3.pdf](http://www.acda.gov/wmeat96/96tab3.pdf)).

<sup>11</sup> ACDA, *World Military Expenditures and Arms Transfers 1996*, April 1997.

<sup>12</sup> "China Reveals \$7 Billion in Military Exports Alone", Washington Post, January 20, 1998.

<sup>13</sup> ACDA, *World Military Expenditures and Arms Transfers 1996*, Table II, April 1997, ([www.acda.gov/wmeat96/96tab2.pdf](http://www.acda.gov/wmeat96/96tab2.pdf)).

<sup>14</sup> White House Fact Sheet, "Conventional Arms Transfer Policy," February 17, 1995.

<sup>15</sup> Nolan, Janne, (Chair), *Report of the Presidential Advisory Board on Arms Proliferation Policy*, 1996.

- New international export control policies are needed for a technology market where there are numerous channels of supply and where many advanced technologies relevant to weapons development are commercial in origin.
- U.S. arms transfer policy can and should be developed and executed separately from policies for maintenance of the defense industrial base.
- Arms and weapons technology transfers should take place without the price-distorting mechanism of government subsidies or penalties.

Expanded opportunities for multilateral security dialogue are taking place at both the official level and the non-government level. The ASEAN Regional Forum (ARF) is an official process established at the ASEAN post-Ministerial Conference in July 1993. The Council for Security Cooperation in the Asia-Pacific (CSCAP) is a non-governmental organization (NGO) that promotes regional confidence building and security cooperation. (See Appendix A.)

Efforts towards transparency of military capabilities, intentions, and arms transfers are being established. There are ongoing efforts through ARF to seek publication of official white papers by the region's governments and the establishment of a public registry that contains general information on arms acquisitions. Confidence building measures also are discussed in ARF. Further, the United Nations Register of Conventional Armaments was established in 1992 to collate data on the import, export, and production of conventional arms in order to promote global and regional security while taking into account the legitimate security needs of states.<sup>16</sup>

The further development of military-to-military relationships between the United States and nations in the region is prudent for several reasons: it helps to establish trust and rapport; enables a freer flow of information between the nations; and it contributes understanding and appreciation of military intentions and capabilities. The U.S. International Military Education and Training (IMET) program helps foster this approach.

Finally, and most importantly, continued American leadership and military engagement in the region discourages any disproportional arms buildup.

### **Impact of Asian Economic Crisis on Arms Trade**

It is still too early to predict the long-term impact of the economic crisis on arms trade in the region. The combined effects of currency depreciation and reduction in the tax base will mean reduced money for defense purposes. Some countries have already begun to retrench on arms purchase plans, deferring or slowing some programs, and canceling others. If the crisis persists, some nations could choose to buy cheaper weapons than originally envisioned. Such shifts in purchasing patterns will continue to unfold as nations across the region re-slice their economic pie among national priorities. At the same time, many of the factors fueling earlier arms purchase decisions remain valid—military forces continue to need modernization; there are the new EEZ protection missions to perform; and the geopolitical future remains uncertain.

---

<sup>16</sup> UN Department for Disarmament Affairs, *UN Register of Conventional Armaments* ([www.un.org/Depts/dda/Register/](http://www.un.org/Depts/dda/Register/)).

## APPENDICES

*"We use the international organizations to address challenges that extend far beyond our borders and to ensure that others bear a fair share of costs and risks."*

*Stuart Eizenstat, Under Secretary of State for  
Economic, Business, and Agricultural Affairs,  
To the Bankers' Association for Foreign Trade,  
January 22, 1998*

*"Members of the APEC community, the true test of a ship occurs not when the winds are favorable and the waters smooth, but when the skies turn dark and powerful waves crash against the bow. The same is true of institutions. In recent years, this forum has convened during periods of rapid economic growth. This year, we meet amidst predictions of financial meltdown and the reality of setbacks that have roiled Asian markets and slowed growth. ...As leaders, we must work together to restore financial stability and re-start economic growth."*

*Madeleine Albright, Secretary of State,  
Remarks to the APEC Ministers  
November 22, 1997*

## APPENDIX A

### MULTILATERAL ORGANIZATIONS

The nations of the Asia-Pacific region have pursued cooperative arrangements since the beginning of the post-World War II period. The dynamic growth of the Asian economies and new security concerns brought on by the end of the Cold War have intensified initiatives for multilateral cooperation. This appendix presents a brief overview of multilateral organizations and arrangements pertinent to economic and security cooperation in the Asia-Pacific region.

#### **Multilateral Economic Cooperation**

*Asia Pacific Economic Cooperation (APEC) Group* APEC is an organization of 18 economies on both sides of the Pacific that seeks to sustain economic development through cooperation on trade and other economic issues.<sup>1</sup> The annual APEC ministers meeting has been given high visibility through concomitant "APEC Leaders Meetings," which provide an opportunity for general discussion among leaders of APEC economies. Progress is also being sought through APEC working groups in the areas of finance, trade and investment, human resource development, telecommunications, and energy.

At the November 1994 APEC meeting held in Indonesia, members agreed in the Bogor Declaration to a goal of free and open trade and investment by the year 2020 for developed countries and by 2010 for industrialized countries. To augment the Bogor Declaration of Common Resolve, attendees at the 1995 meeting in Japan approved the Osaka Action Agenda calling for member economies to develop voluntary trade liberalization plans. These individual action plans (IAPs) were incorporated into the Manila Action Plan for APEC at the 1996 APEC meeting held in the Philippines. That meeting also produced an agreement that lead to a World Trade Organization agreement to lower tariffs and barriers in telecommunications. The 1997 meeting held in Vancouver, Canada, focused on implementation and improvement of IAPs, which are seen as works in progress until Bogor goals are finally achieved. The meeting identified 15 sectors for which tariffs are to be eliminated, with accelerated tariff elimination in chemicals, energy-related equipment and services, environmental goods and services, fish and fish products, forest products, gems and jewelry, medical equipment, telecommunications equipment, and toys. Six sectors -- automotive, civil aircraft, fertilizers, food, natural and synthetic rubber, and oilseeds and oilseed products -- will be further reviewed for action at the June 1998 ministers meeting in Kuching, Malaysia.

APEC members include Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Chinese Taipei (Taiwan), Thailand, the United States, and, admitted in 1995, Mexico and Papua New Guinea (PNG). To promote deepening, rather than widening, of cooperative relations, APEC established a moratorium on additional membership through 1997. Peru, Russia, and Vietnam are to join in November 1998. Others such as India have expressed a strong desire to participate in APEC.

---

<sup>1</sup> APEC, *APEC*, ([www.apecsec.org.sg/97brochure/97brochure.html](http://www.apecsec.org.sg/97brochure/97brochure.html)). The count may reach 21 by the end of 1998.

*The World Trade Organization (WTO) and the General Agreement on Tariffs and Trade (GATT)*

GATT is a multilateral treaty that sets the rules for international trade and provides a forum for international trade negotiations. The GATT system of rules, which became effective in 1948, has been refined through a series of successive multilateral negotiating rounds. The Uruguay Round was the eighth of the series. When the Uruguay Round agreement was implemented in June 1995, GATT's administrative structures were replaced by the World Trade Organization (WTO).<sup>2</sup>

Membership in the WTO now stands at 132 nations, with 29 other governments in an applicant observer status. Figure A-1 identifies current Asian-Pacific members of the GATT, as well as those with the status of Applicant and Observer.

Figure A-1  
WTO Status of Asian Countries

| WTO Members |                  | WTO Observer<br>/Applicant | Non-Status  |
|-------------|------------------|----------------------------|-------------|
| Australia   | Maldives         | Cambodia                   | Bhutan      |
| Bangladesh  | Mauritius        | China                      | North Korea |
| Brunei      | Mongolia         | Taiwan                     | Laos        |
| Burma       | New Zealand      | Nepal                      | Kiribati    |
| Fiji        | Pakistan         | Seychelles                 | Tuvalu      |
| Hong Kong   | Papua New Guinea | Tonga                      |             |
| India       | Philippines      | Vanuatu                    |             |
| Indonesia   | Singapore        | Vietnam                    |             |
| Japan       | Solomon Islands  |                            |             |
| Macau       | South Korea      |                            |             |
| Madagascar  | Sri Lanka        |                            |             |
| Malaysia    | Thailand         |                            |             |

Fundamental WTO principles state that the trading system should be:<sup>3</sup>

- Without discrimination - a country should not discriminate between its trading partners (they are all, equally, granted "most-favored-nation" or MFN status); and it should not discriminate between its own and foreign products, services or nationals (they are given "national treatment").
- Freer - with barriers coming down through negotiation.
- Predictable - foreign companies, investors and governments should be confident that trade barriers (including tariffs, non-tariff barriers and other measures) should not be raised arbitrarily; tariff rates and market-opening commitments are "bound" in the WTO.

<sup>2</sup> WTO, *About the WTO*, ([www.wto.org/wto/about/](http://www.wto.org/wto/about/))

<sup>3</sup> WTO, *About the WTO - Basics: Principles of the Trading System*, ([www.wto.org/wto/about/facts2.html](http://www.wto.org/wto/about/facts2.html))

- More competitive - by discouraging "unfair" practices such as export subsidies and dumping products at below cost to gain market share.
- More beneficial for less developed countries - by giving them more time to adjust, greater flexibility, and special privileges.

Disputes among WTO members over existing rules are handled through the WTO secretariat and ad hoc committees headquartered in Geneva, Switzerland. In the past, differences were settled directly between the countries concerned. Now, members use panels of independent experts to examine the disputes and report their conclusions. WTO members decide whether to accept, by consensus, the findings of the panel of trade experts.

Developing countries, many of whom complained of being sidelined by the more developed countries during the GATT negotiations, may turn out to be the WTO's biggest winners. The export-oriented economies of East Asia will especially benefit from more open access to global markets.

China hopes to join WTO, but has not yet satisfactorily provided steps to bring its economic and trade systems in line with WTO norms.

A study by WTO dismisses the idea that world trade is polarizing into inward-oriented, regional "blocs" and concludes that regional integration agreements bolster the objective of global free trade. Implementing the Uruguay Round will dramatically cut tariffs, thereby reducing the scope of preferences that can be exclusively offered to partners within a regional group. Meanwhile, regional agreements are laying the foundation for global agreement in areas such as environmental protection, investment, and competition policy. WTO is also complementing regional liberalization by making progress in intellectual property protection, services, and agricultural policy.<sup>4</sup>

World Bank. The World Bank was founded along with the International Monetary Fund at the Bretton Woods Conference at the end of World War II in order to serve as a catalyst for economic growth and social progress. The World Bank Group provides development loans through the International Bank for Reconstruction and Development (IBRD), provides financing for the world's poorest countries through the International Development Association (IDA), finances private sector projects in developing countries through the International Finance Corporation (IFC), and foreign direct investment with guarantees against political risk through the Multilateral Investment Guarantee Agency (MIGA).<sup>5</sup>

International Monetary Fund (IMF). The IMF was created to promote international monetary cooperation; to facilitate the expansion and balanced growth of international trade; to promote exchange stability; to assist in the establishment of a multilateral system of payments; to make its general resources temporarily available to its members experiencing balance of payments difficulties under adequate safeguards; and to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members. IMF currently has 182 members. The IMF makes its financial resources available to member countries through regular,

<sup>4</sup> WTO, *Regionalism and the World Trading System*, April 1995.

<sup>5</sup> World Bank, *The World Bank Group* ([www.worldbank.org/html/extdr/business/bus00001.htm](http://www.worldbank.org/html/extdr/business/bus00001.htm)).



concessional, and special financial facilities. A frequently used facility is the Stand-by arrangement (SBA), which provides short-term balance of payments assistance for deficits of a temporary or cyclical nature, typically for 12 to 18 months. Drawings are phased on a quarterly basis, and their release is conditional on meeting performance criteria and the completion of periodic program reviews. Repurchases are made 3 1/4 to 5 years after each purchase.<sup>6</sup>

Asian Development Bank (ADB). The ADB, established in 1966, is an official, international organization that promotes economic and social development through development assistance and project loans.<sup>7</sup> Many countries, including nonregional members, support ADB through multilateral aid contributions.

Official Development Assistance to the ADB from the world's major donor countries totaled \$962M in 1995. Of this amount, \$695M, or 72%, came from Japan.<sup>8</sup>

Regional ADB members include Afghanistan, Australia, Bangladesh, Bhutan, Burma, Cambodia, China, Cook Islands, Fiji, Hong Kong, India, Indonesia, Japan, Kiribati, South Korea, Laos, Malaysia, Maldives, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, Nepal, New Zealand, Pakistan, Papua New Guinea, Philippines, Singapore, Solomon Islands, Sri Lanka, Taiwan, Thailand, Tonga, Tuvalu, Vanuatu, Vietnam, and Western Samoa. The Central Asian Republics of Kazakhstan and the Krygyz Republic joined in 1994, while Uzbekistan became a member in 1995.

Nonregional members include Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States.

Economic and Social Commission for Asia and the Pacific (ESCAP). The United Nations' ESCAP is a commission established in 1947 to promote economic development by providing analysis, interpretation of events, and technical assistance. ESCAP programs focus on rural poverty, sustainable development, HIV/AIDS, environment, communities, elephants, and transportation.<sup>9</sup>

ESCAP's 51 full members include Afghanistan, Armenia, Australia, Azerbaijan, Bangladesh, Bhutan, Brunei, Burma, Cambodia, China, Fiji, France, India, Indonesia, Iran, Japan, Kazakhstan, Kiribati, North Korea, South Korea, Kyrgyzstan, Laos, Malaysia, Maldives, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, Nepal, Netherlands, New Zealand, Pakistan, Palau, Papua New Guinea, Philippines, Russia, Singapore, Solomon Islands, Sri Lanka, Tajikistan, Thailand, Tonga, Turkey (to be approved by the UN), Turkmenistan, Tuvalu, United Kingdom, United States, Uzbekistan, Vanuatu, Vietnam, and Western Samoa. Associate ESCAP members are American Samoa, Cook Islands, French Polynesia, Guam, Hong Kong, Macau, New Caledonia, Niue, and Northern Mariana Islands.

<sup>6</sup> IMF, *The IMF at a Glance* ([www.imf.org/external/np/exr/facts/glance.htm](http://www.imf.org/external/np/exr/facts/glance.htm)).

<sup>7</sup> Asian Development Bank, ([www.asiandevbank.org](http://www.asiandevbank.org)).

<sup>8</sup> OECD, *Development Co-operation 1997*, ([www.oecd.org/dac/html/dacstats/oda9095.xls](http://www.oecd.org/dac/html/dacstats/oda9095.xls)).

<sup>9</sup> United Nations, *ESCAP* ([www.unun.org/Depts/escap/unis/world.html](http://www.unun.org/Depts/escap/unis/world.html)).

Pacific Economic Cooperation Conference (PECC). Founded in 1980, PECC is a non-governmental organization (NGO) established to promote economic cooperation in the Pacific Basin through a flexible, informal, tripartite network in which business leaders, researchers, and officials can interact.<sup>10</sup>

PECC establishes workshops, task forces, fora, and working groups to concentrate on particular policy areas, which currently include agriculture; human resources; minerals and energy; transportation, telecommunications, and tourism; and the *Pacific Economic Outlook* project. PECC's projects promote policy recommendations to interested governments that share the common goal of open regionalism and the liberalization of trade, investment, and technology flows between regional groupings and among individual economies.

The 23 member committees each send a tripartite delegation of business, government, and academic representatives to the PECC General Meeting held approximately every 18 months. Interim policy matters are handled by a Standing Committee, and administrative functions are carried out by a Secretariat based in Singapore.

PECC members are from Australia, Brunei, Canada, Chile, China, Colombia, France (Pacific Territories), Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Peru, the Philippines, Russia, Singapore, Chinese Taipei (Taiwan), Thailand, the United States, Vietnam, and the Pacific Island Nations (South Pacific Forum).

Organizations affiliated with PECC are the Pacific Basin Economic Council (PBEC, a regional business organization), Pacific Trade and Development Conference (PACTAD, an organization of regional academics), and APEC (a forum of governmental leaders). Along with the members, these groups also hold seats on the PECC Standing Committee.

Pacific Basin Economic Council (PBEC). The PBEC (established in 1967) is an association of business leaders from throughout the Pacific that promotes open trade and investment and encourages competitiveness based on the capabilities of individual companies.<sup>11</sup> Its objectives are to advise governments, generate foreign investment, reduce international trade barriers, stimulate new technology, and balance economic development with a clean environment. PBEC meetings and services involve the business community with government and academic leaders, and provide an unofficial forum for policy discussion. PBEC also cooperates with multilateral organizations such as APEC, WTO, and PECC to ensure that private sector viewpoints are represented.

PBEC's membership includes over 1,100 member companies in Australia, Canada, Chile, China, Colombia, Fiji, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Peru, Philippines, Russia, Taiwan, Thailand, and the United States. Ecuador has applied for membership and Vietnam has indicated that it will apply this year.

A highly visible event is PBEC's annual International General Meeting (IGM), which brings together leaders in business, academia, and government from more than 25 countries. Recent IGMs were held in Seoul, South Korea (1993), Kuala Lumpur, Malaysia (1994), and New

<sup>10</sup> PECC, *About PECC*, ([www.pecc.net/about.html](http://www.pecc.net/about.html))

<sup>11</sup> PBEC, *PBEC Background Information* ([www.pbec.org/backgroun.htm](http://www.pbec.org/backgroun.htm)).

Zealand (1995). At the May 1996 meeting held in Washington DC, President Clinton announced the renewal of Most Favored Nation status for China. The 1997 IGM was held in Manila, Philippines and included participation by the Commander-in-Chief, U.S. Pacific Command, Admiral Joseph Prueher, who has also addressed the PBEC steering committee.<sup>12</sup> The 1998 IGM is in Santiago, Chile.

A report written by PBEC observed that companies face significant problems in Asian markets over intellectual property.<sup>13</sup> Several companies have pulled out of Asian markets because of weak regimes to protect intellectual property. The report noted that "Both elements -- good laws and strong enforcement -- must operate hand-in-hand."

North American Free Trade Agreement (NAFTA). The North American Free Trade Agreement (NAFTA) is an agreement among the United States, Canada, and Mexico that created a free trade zone in North America on January 1, 1994. It is the first reciprocal free trade pact between a developing economy and industrialized countries and is consistent with WTO principles. It is not structured as a protectionist bloc and does not increase tariffs or create exclusionary barriers to trade. NAFTA phases out tariff and non-tariff barriers over a period of 15 years in such sectors as manufactured and agricultural goods, financial and other services, telecommunications, and direct investment. NAFTA also addresses intellectual property rights.<sup>14</sup>

ASEAN. In 1967, ASEAN was established under the Treaty of Amity and Cooperation in Southeast Asia (the "Bali Treaty").<sup>15</sup> Original signatories were Thailand, Singapore, Malaysia, Indonesia, and the Philippines. Brunei joined in 1984, and Vietnam became a member in 1995. Laos and Burma (Myanmar) were admitted 23 July 1997. ASEAN functions primarily through meetings of heads of government; foreign, economic and sectoral ministers; and senior officials. ASEAN's secretariat and committees provide coordination.

In conjunction with an annual meeting of ASEAN ministers, a Post-Ministerial Conference (PMC) is held among ASEAN countries and its dialogue partners. PMCs focus on economic issues. ASEAN's ten dialogue partners are Australia, Canada, the European Union, Japan, New Zealand, South Korea, the United States, and, added in 1996, India, China and Russia. The Senior Officials Meeting (SOM) supports the PMC process by bringing together senior officials of ASEAN and the dialogue partners to discuss such issues as multilateral approaches to security, preventive diplomacy, conflict management, and confidence-building measures.

Numerous bilateral relations exist between ASEAN and other countries. For example, the U.S-ASEAN Alliance for Mutual Growth (AMG) is a joint government and private sector initiative established in 1993 to strengthen U.S. trade and investment ties with ASEAN through cooperative programs in sectors such as autos, aerospace and telecommunications; through coordination of product standards; and through development of human resources.

---

<sup>12</sup> PBEC, *Pacific Military Commander Addresses PBEC Delegates* ([www.pbec.org/preuher9.htm](http://www.pbec.org/preuher9.htm))

<sup>13</sup> PBEC, *Implementing Free Trade and Investment in the Pacific Region* ([www.pbec.org/policy.htm](http://www.pbec.org/policy.htm)), May 1996.

<sup>14</sup> Department of Commerce, *Welcome to NAFTA Facts* ([www.itaiep.doc.gov/nafta/menu1.htm](http://www.itaiep.doc.gov/nafta/menu1.htm))

<sup>15</sup> ASEAN, *ASEANWEB*, ([www.asean.or.id](http://www.asean.or.id)). See "ASEAN Regional Forum (ARF)" under Multilateral Security Cooperation.

## Regional Trading Agreements

ASEAN Free Trade Agreement (AFTA). In January 1992, the six ASEAN nations agreed to implement AFTA on January 1, 1993, with a goal of reducing tariff rates to a maximum of 5.0% over the next fifteen years. As currently structured, AFTA mechanisms are consistent with both GATT and APEC. Tariff reductions apply to selected manufactured products, including capital goods and processed agricultural products. Members are allowed to exclude certain products for industries it considers to be too sensitive to reduced tariffs.

ASEAN has a large domestic market of 418 million people and accounted for a combined Gross National Product (GNP) in 1995 of over \$1.7T, when measured on a purchasing power basis. Most ASEAN trade is with external markets; only one-fourth of ASEAN's trade is among its own members. Nevertheless, intra-ASEAN trade is growing faster than total exports, especially in those sectors sharing the Common Effective Preferential Tariff (CEPT).<sup>16</sup> About 41% of products will have 0% tariff rates by the year 2003. AFTA will have longer term effects on investment trends and the development of specialized industrial niches.

South Asian Association for Regional Cooperation (SAARC). SAARC is a regional economic association consisting of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.<sup>17</sup> In 1995 the *South Asian Preferential Trade Arrangement* (SAPTA) was established to promote tariff concessions consistent with GATT. SAPTA and AFTA are the only two regional trade agreements in Asia.

## Sub-Regional Economic Zones

In the pursuit of higher economic growth, neighboring countries are discovering the benefits of easing economic relations through cross-border associations called sub-regional economic zones. Many of these zones are an outgrowth of country experiences with export processing zones or UN-sponsored development projects.<sup>18</sup> Examples include: (See Figure A-2.)

- The *East ASEAN Growth Area* includes Brunei, Indonesia, Malaysia, and the Philippines.
- The *SIJORI* growth triangle comprises Singapore, the southern part of the Malaysian state of Johor, and the islands of Riau Province of Indonesia.
- The *Indonesia-Malaysia-Thailand Growth Triangle* (IMT-GT) includes two provinces of Indonesia, four states of northern Malaysia, and five southern provinces of Thailand.
- The *Mekong River Commission* covers parts of Cambodia, Laos, Thailand, and Vietnam. The *Greater Mekong Subregional* (GMS) economic cooperation project also includes Burma and China's Yunnan Province.
- The *Tumen River Development Program* intersects North Korea, China, and Russia.

<sup>16</sup> Ninth AFTA Council Meeting, *Joint Press Statement*, 26 April 1996, ([www.asean-server.asean/economic/afta/eco\\_ac9.htm](http://www.asean-server.asean/economic/afta/eco_ac9.htm)).

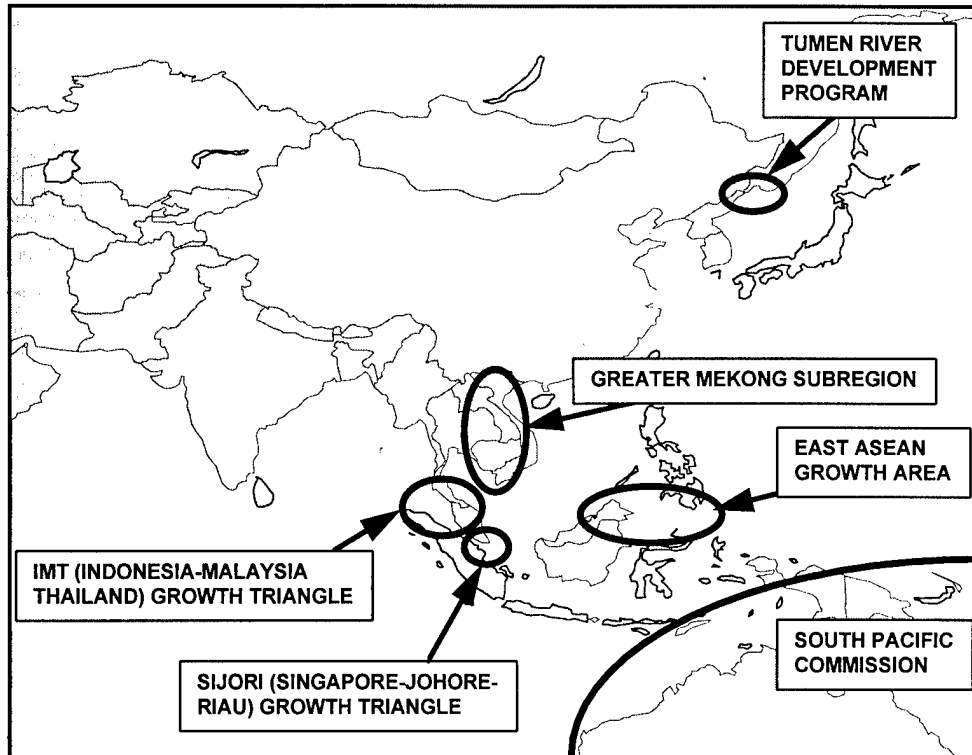
<sup>17</sup> See the unofficial SAARC ([www.saarc.com](http://www.saarc.com)) and *Welcome to SAARCNET* ([www.madeinindia.com/saarcnet](http://www.madeinindia.com/saarcnet)).

<sup>18</sup> ADB, *Asian Development Outlook 1996-1997*, 1996; ADB, *Asian Development Outlook 1995-1996*, Box 1.2. 1995; and Far Eastern Economic Review, *Asia 1996 Yearbook*, December 1995.

- *South Pacific Commission* consists of 27 Pacific island states and Australia.

Figure A-2

### Sub-regional Economic Zones



## Multilateral Security Cooperation

ASEAN Regional Forum (ARF). In 1993, the ASEAN Ministerial Meeting decided to turn the security component of the PMC into ARF, which is a forum for bringing together official representatives of member countries to discuss regional security issues. ARF's first meeting was in July 1994, in Bangkok. The second meeting took place in Brunei in August 1995. ARF brings members together to share their regional concerns and interests. With ASEAN as host, the ARF can address a wide range of political and security issues and also elaborate on particular ASEAN security concerns, such as expanding ASEAN's Treaty of Amity and Cooperation into a regional code of conduct. ARF discussions have been initiated over issues such as confidence building measures (e.g., arms registry, notification of military exercises), anti-personnel landmines, chemical weapon proliferation, and the Southeast Asia Nuclear Weapons Free Zone. ARF brings together 21 participants, including the nine ASEAN states (Thailand, Singapore, Malaysia, Indonesia, Brunei, the Philippines, Vietnam, Laos, and Burma), ASEAN's ten dialogue partners (the United States, Canada, Australia, New Zealand, Japan, South Korea, the European Union, India, China and Russia), as well as Papua New Guinea, and Cambodia. Countries that have expressed interest in joining ARF include Kazakhstan, Mongolia, North Korea, Pakistan, France, and the United Kingdom.<sup>19</sup>

Council for Security Cooperation in the Asia Pacific (CSCAP). CSCAP is a non-governmental organization (NGO) established in 1993 to provide a structured process for regional confidence-building and security cooperation by promoting multilateral dialogue, consultation, and cooperation among academicians, security specialists, and government (including military) officials. CSCAP links member committees in fourteen Asia-Pacific nations: Australia, Canada, Indonesia, Japan, Malaysia, Mongolia, New Zealand, North Korea, the Philippines, Russia, Singapore, South Korea, Thailand, and the United States; there are also two associate members, the EU and India. CSCAP pre-dates the ARF and now seeks to provide research support at the unofficial (second track) level to help advance ARF aims.<sup>20</sup>

CSCAP international working groups undertake policy-oriented studies with a view toward formulating policy recommendations for individual governments and official multilateral dialogues, especially the ASEAN Post-Ministerial Conference (PMC) and ASEAN Regional Forum (ARF). CSCAP is open to all countries and territories of the region, and hopes to include institutes from Vietnam and China, as well as scholars from Taiwan.

Northeast Asia Cooperation Dialogue (NEACD). NEACD is a process for discussing security concerns among the United States and Northeast Asia countries, including Japan, South Korea, North Korea, China, and Russia. Sponsored in the United States by the University of California at San Diego, conferences were held in October 1993 (San Diego), May 1994 (Tokyo), April 1995 (Podmoskovie, Russia), January 1996 (Beijing), and September 1996 (Seoul) focusing on confidence building measures and security cooperation. North Korean officials participated in an initial planning session, but have not attended any of the meetings.

<sup>19</sup> Australian Department of Foreign Affairs and Trade, *ARF* ([www.dfat.gov.au/arf/arfintro.html](http://www.dfat.gov.au/arf/arfintro.html))

<sup>20</sup> Australia Member Committee of CSCAP, *AUS-CSCAP* ([coombs.anu.edu.au/Depts/RSPAS/AUSCSCAP/](http://coombs.anu.edu.au/Depts/RSPAS/AUSCSCAP/))

## APPENDIX B

### DATA TABLES

|  |
|--|
| Table 1: Key Indicators                                    |
| Table 2: Asia-Pacific Merchandise Trade - 1996             |
| Table 3: U.S. Direct Investment in the Asia-Pacific Region |
| Table 4: U.S. Aid to the Asia-Pacific Region               |
| Table 5: Asia-Pacific Defense Spending                     |

The data tables present detailed information on activity in the Asia-Pacific economies. The data tables are drawn from available, open sources, such as the World Bank (WB), the International Monetary Fund (IMF), the Asian Development Bank (ADB), the U.S. Department of Commerce, the U.S. Arms Control and Disarmament Agency (ACDA), and the Institute for International Security Studies (IISS).

Table 1, **Key Indicators**, depicts the wide diversity among Asian economies with respect to economic size, population, and per capita income. General economic activity is reflected in the key indicators of population, Gross National Product (GNP), growth in Gross Domestic Product (GDP)<sup>1</sup>, inflation, and U.S. trade.

Table 1 compares the relative size of economies using Gross National Product (GNP). The latest World Bank estimates (covering 1995) are presented using the Purchasing Power Parity (PPP) method and the more traditional computation based on market exchange rates. The PPP method yields substantially higher estimates of GNP for the countries of Developing Asia when compared to GNP computations based on market exchange rates. In general, GNPs for industrialized economies are smaller when computed according to PPP rather than market exchange rates; the opposite is typically the case for developing economies.<sup>2</sup> For example, using the PPP method, the size of Japan's economy is 39% of that of the United States; using the exchange rate method, Japan's size is about 70%. For the rest of Asia, however, PPP estimates are significantly higher than when using market exchange rates. For example, India's PPP estimate of GNP is \$1.3B, whereas its exchange rate estimate is only \$320B. China's PPP estimate is \$3.5T, and its exchange rate estimate is \$745B.

Estimates of GDP growth for 1997 are derived from IMF World Economic Outlook (WEO) October 1997 edition, and the Interim Outlook from December 1998. These estimates are not final figures for the year, and as such depict the strong growth of early 1997 as well as the slowed growth after the financial crisis that began in mid-1997.

<sup>1</sup> GDP is the total output produced inside a country in a given year, regardless of whose citizens own the factors of production. In contrast, GNP is the total output produced by those factors owned by citizens of the country. For example, Toyotas produced with Japanese-owned capital located in the United States are included in U.S. GDP, but not in U.S. GNP. Conversely, these same Toyotas would be part of Japan's GNP, but not GDP.

<sup>2</sup> The PPP-based weights consider prices of a bundle of goods and services, including food, clothing, housing, and transportation. These weights incorporate a more realistic valuation of non-traded output (e.g., housing, domestic transportation), which has little effect on market exchange rates. As such, evaluations of non-traded output for developing countries are typically higher under PPP evaluation than under the market-exchange method, thus leading to larger estimates of output. Additional causes of deviation of market exchange rates from their PPP equivalents include speculative bubbles in foreign exchange markets, exchange market intervention by central banks, asymmetric speeds of adjustment in goods and asset markets, and macroeconomic shocks (e.g., oil shocks).

## DATA SOURCES

| Table | Item                           | Source  |
|-------|--------------------------------|---|
| 1     | GNP                            | World Bank, <i>The World Bank Atlas 1997</i> , except those noted:<br>(a) - CIA, <i>World Factbook 1996</i> , PPP estimate<br>(b) - CIA, <i>World Factbook 1996</i> , exchange rate estimate<br>(c) - Exchange estimate not available, PPP used |
|       | Population                     | World Bank, <i>The World Bank Atlas 1997</i>  |
|       | GDP % Growth                   | IMF, <i>World Economic Outlook</i> , May 1997   |
|       | Inflation                      | IMF, <i>World Economic Outlook</i> ; ADB, <i>Asian Development Outlook</i>  |
|       | U.S. Trade                     | Department of Commerce webpages, February 1998. (Merchandise trade figures only, as service data is not provided on a country basis.)   |
| 2     | Asia-Pacific Merchandise Trade | IMF, <i>Direction of Trade Statistics Yearbook 1996</i>   |
| 3     | U.S. Direct Investment         | U.S. Department of Commerce, <i>Survey of Current Business</i> , and STAT-USA file "0797DIP.PDF," July 1997   |
| 4     | U.S. Aid                       | USAID, <i>Congressional Presentation Summary Tables</i> (series)  |
| 5     | Defense Spending               | U.S. Arms Control and Disarmament Agency, <i>World Military Expenditures and Arms Transfers 1997</i>  |

Table 2, **Asia-Pacific Merchandise Trade**, presents the most recent, comprehensive trade data for Asia-Pacific economies, showing IMF merchandise trade statistics for 1996. The tables include a breakout of each country's trade in 1996 with the United States, Japan, and Asian Developing Countries, and reveal the multipolar nature of trade in the Asia-Pacific region. Recent 1997 trade figures for the United States can be found in Table 1.

Table 3, **U.S. Direct Investment Position Abroad**, documents the growing presence of U.S. firms across the Asia-Pacific region.

Table 4, **U.S. Aid to the Asia-Pacific Region**, illustrates the declining U.S. foreign aid levels to Asia-Pacific countries.

Table 5, **Asia-Pacific Defense Spending**, depicts the changes in defense spending for Asia-Pacific countries as well as the average growth over the last decade. The table also presents the defense share of GNP and the number of troops in each country.



**Table 1**  
**KEY INDICATORS**

| Economy  | Population<br>1995 (Mill)<br>WB/CIA | GNP (PPP-basis)                   |                               | GNP (Exchange Rate-basis)              |                                   | GDP %<br>Growth<br>1997<br>IMF | Consumer<br>Inflation %<br>1997<br>IMF | U.S.<br>Exports<br>1997 (\$M)<br>DoC | U.S.<br>Imports<br>1997 (\$M) |
|--|-------------------------------------|-----------------------------------|-------------------------------|--|-----------------------------------|--------------------------------|--|--------------------------------------|-------------------------------|
|  |                                     | Per Capita<br>1995 (\$)<br>WB/CIA | Total<br>1995 (\$M)<br>WB/CIA | Per Capita<br>1995 (\$M)<br>WB/CIA/ADB | Total<br>1995 (\$M)<br>WB/CIA/ADB |                                |  |                                      |                               |
| Key Sources:   |                                     |                                   |                               |  |                                   |                                |  |                                      |                               |
| ASIAN DEVELOPING   | 3,001.7                             | 2,694                             | 8,087,887                     | 900                                    | 2,700,694                         |                                |  | 127,545                              | 213,169                       |
| 1 AFGHANISTAN *  | 21.3                                | 600 (a,c)                         | 12,800                        | 600                                    | 12,800                            |                                |  | 12                                   | 10                            |
| 2 BANGLADESH   | 119.8                               | 1,380                             | 165,280                       | 239                                    | 28,599                            | 5.5                            | 4.9                                    | 259                                  | 1,679                         |
| 3 BHUTAN   | 0.7                                 | 1,260 (a)                         | 876                           | 424                                    | 295                               |                                |  | 1                                    | 1                             |
| 4 BRUNEI   | 0.3                                 | 15,157 (a)                        | 4,430                         | 15,157                                 | 4,430                             |                                |  | 178                                  | 56                            |
| 5 CHINA,PR   | 1,200.2                             | 2,920                             | 3,504,704                     | 621                                    | 744,890                           | 8.8                            | 1.5                                    | 12,805                               | 62,552                        |
| 6 FIJI   | 0.8                                 | 5,780                             | 4,480                         | 2,445                                  | 1,895                             |                                |  | 33                                   | 85                            |
| 7 FR. POLYNESIA  | 0.2                                 | 8,000 (a,c)                       | 1,760                         | 8,000                                  | 1,760                             |                                |  | 106                                  | 35                            |
| 8 GUAM(91est)  | 0.2                                 | 14,000 (a,c)                      | 2,000                         | 14,000                                 | 2,000                             |                                |  |                                      |                               |
| 9 HONGKONG   | 6.2                                 | 22,950                            | 142,061                       | 22,994                                 | 142,332                           | 5.3                            | 6.5                                    | 15,115                               | 10,297                        |
| 10 INDIA   | 929.4                               | 1,400                             | 1,301,101                     | 344                                    | 319,660                           | 5.8                            | 5.9                                    | 3,616                                | 7,321                         |
| 11 INDONESIA   | 193.3                               | 3,800                             | 734,453                       | 984                                    | 190,105                           | 5.0                            | 8.3                                    | 4,532                                | 9,174                         |
| 12 CAMBODIA  | 10.6                                | 636 (a,c)                         | 6,720                         | 257                                    | 2,718                             |                                |  | 19                                   | 103                           |
| 13 KIRIBATI  | 0.1                                 | 847 (a)                           | 67                            | 920                                    | 73                                |                                |  | 3                                    | 2                             |
| 14 KOREA,S   | 44.9                                | 11,450                            | 513,544                       | 9,702                                  | 435,137                           | 6.0                            | 4.3                                    | 25,067                               | 23,159                        |
| 15 LAOS  | 4.8                                 | 921 (a)                           | 4,457                         | 350                                    | 1,694                             |                                |  | 3                                    | 14                            |
| 16 MACAU/MACAO   | 0.5                                 | 10,000 (a,c)                      | 4,909                         | 10,000                                 | 4,909                             |                                |  | 67                                   | 1,021                         |
| 17 MALAYSIA  | 20.1                                | 9,020                             | 181,663                       | 3,889                                  | 78,321                            | 7.0                            | 3.7                                    | 10,828                               | 18,017                        |
| 18 MALDIVES  | 0.3                                 | 3,080 (a)                         | 779                           | 992                                    | 251                               |                                |  | 6                                    | 19                            |
| 19 MARSHALL IS.  | 0.1                                 | 1,787 (a)                         | 100                           | 1,787                                  | 100                               |                                |  | 24                                   | 17                            |
| 20 MICRONESIA, F.S.  | 0.1                                 | 1,825 (a)                         | 224                           | 1,749                                  | 215                               |                                |  | 29                                   | 12                            |
| 21 MONGOLIA  | 2.5                                 | 1,950                             | 4,799                         | 312                                    | 767                               |                                |  | 34                                   | 42                            |
| 22 BURMA   | 45.1                                | 990 (a,b)                         | 44,631                        | 990                                    | 44,631                            |                                |  | 20                                   | 115                           |
| 23 NAURU(93est)  | 0.0                                 | 10,000 (a,c)                      | 100                           | 10,000                                 | 100                               |                                |  | 1                                    | 0                             |
| 24 NEPAL   | 21.5                                | 1,170                             | 25,104                        | 205                                    | 4,391                             |                                |  | 27                                   | 113                           |
| 25 N.CALEDONIA   | 0.2                                 | 6,495 (c)                         | 1,199                         | 6,495                                  | 1,199                             |                                |  | 34                                   | 51                            |
| 26 PAKISTAN *  | 129.9                               | 2,230                             | 289,688                       | 462                                    | 59,991                            | 3.1                            | 11.2                                   | 1,234                                | 1,442                         |
| 27 PALAU(94est)  | 0.0                                 | 5,000 (a,c)                       | 82                            | 5,000                                  | 82                                |                                |  | 15                                   | 13                            |
| 28 PNG   | 4.3                                 | 2,420                             | 10,411                        | 1,157                                  | 4,976                             |                                |  | 117                                  | 65                            |
| 29 PHILIPPINES   | 68.6                                | 2,850                             | 195,496                       | 1,048                                  | 71,865                            | 4.3                            | 5.2                                    | 7,427                                | 10,436                        |
| 30 SAMOA,AM  |                                     | (c)                               |                               |  |                                   |                                |  |                                      |                               |
| 31 SINGAPORE   | 3.0                                 | 22,770                            | 68,014                        | 26,726                                 | 79,831                            | 7.2                            | 2.1                                    | 17,727                               | 20,067                        |
| 32 SOLIS.  | 0.4                                 | 2,190 (a)                         | 821                           | 909                                    | 341                               |                                |  | 2                                    | 1                             |
| 33 SRI LANKA   | 18.1                                | 3,250                             | 58,871                        | 696                                    | 12,616                            |                                |  | 155                                  | 1,620                         |
| 34 THAILAND  | 58.2                                | 7,540                             | 439,145                       | 2,741                                  | 159,630                           | 0.6                            | 6.0                                    | 7,357                                | 12,595                        |
| 35 TONGA   | 0.1                                 | 2,153                             | 227                           | 1,610                                  | 170                               |                                |  | 8                                    | 3                             |
| 36 TUVALU  | 0.0                                 | 800 (a,c)                         | 8                             | 800                                    | 8                                 |                                |  | 0                                    |                               |
| 37 VANUATU   | 0.2                                 | 2,290                             | 387                           | 1,195                                  | 202                               |                                |  | 1                                    | 2                             |
| 38 VIETNAM   | 74.4                                | 1,240 (a)                         | 92,272                        | 237                                    | 17,634                            | 9.5                            | 7.0                                    | 278                                  | 388                           |
| 39 W. SAMOA  | 0.2                                 | 2,030                             | 335                           | 1,115                                  | 184                               |                                |  | 11                                   | 4                             |
| 40 TAIWAN  | 21.5                                | 12,553 (a,b)                      | 269,893                       | 12,553                                 | 269,893                           | 6.7                            | 2.0                                    | 20,388                               | 32,624                        |
| INDUSTRIAL CTYS  |                                     |                                   |                               |  |                                   |                                |  |                                      |                               |
| 41 US  | 263.1                               | 26,980                            | 7,098,951                     | 26,984                                 | 7,100,007                         | 3.8                            | 2.4                                    |                                      |                               |
| 42 CANADA *  | 29.6                                | 21,130                            | 625,575                       | 19,378                                 | 573,695                           | 3.7                            | 1.6                                    | 151,451                              | 168,051                       |
| 43 JAPAN   | 125.2                               | 22,110                            | 2,768,459                     | 39,641                                 | 4,963,587                         | 1.0                            | 1.7                                    | 65,673                               | 121,359                       |
| 44 AUSTRALIA   | 18.1                                | 18,940                            | 341,943                       | 18,717                                 | 337,909                           |                                |  | 12,079                               | 4,602                         |
| 45 NEW ZEALAND   | 3.6                                 | 16,360                            | 58,912                        | 14,345                                 | 51,655                            |                                |  | 1,957                                | 1,579                         |
| OTHER COUNTRIES  |                                     |                                   |                               |  |                                   |                                |  |                                      |                               |
| 46 RUSSIA *  | 148.2                               | 4,480                             | 663,914                       | 2,240                                  | 331,948                           | 1.5                            | 16                                     | 3,289                                | 4,290                         |
| 47 N. KOREA  | 23.5                                | 920 (a,c)                         | 21,300                        | 907                                    | 21,300                            |                                |  | 2                                    |                               |
| 48 COMOROS   | 0.5                                 | 1,320                             | 659                           | 475                                    | 237                               |                                |  | 0                                    | 3                             |
| 49 MADAGASCAR  | 13.7                                | 640                               | 8,737                         | 233                                    | 3,178                             |                                |  | 12                                   | 63                            |
| 50 MAURITIUS   | 1.1                                 | 13,210                            | 14,901                        | 3,382                                  | 3,815                             |                                |  | 31                                   | 238                           |
| 51 SEYCHELLES  | 0.1                                 | 5,880 (a)                         | 428                           | 6,698                                  | 487                               |                                |  | 6                                    | 2                             |
| * Not in USPACOM area  |                                     |                                   |                               |  |                                   |                                |  |                                      |                               |
| (a) - CIA World Factbook 1996, PPP est.; (b) - ADB Asian Development Outlook, exch. est. |                                     |                                   |                               |  |                                   |                                |  |                                      |                               |
| (c) - Exch. est not available (PPP used)   |                                     |                                   |                               |  |                                   |                                |  |                                      |                               |
| SUMMARY  |                                     |                                   |                               |  |                                   |                                |  |                                      |                               |
| 4 NIE'S  | 76                                  | 13,154                            | 993,511                       | 12,276                                 | 927,193                           | 6.2                            | 3.7                                    | 78,297                               | 86,147                        |
| SE ASIA(w/o Singapore)   | 430                                 | 3,854                             | 1,658,634                     | 1,223                                  | 526,397                           |                                |  | 30,621                               | 50,783                        |
| S. ASIA  | 1,286                               | 1,477                             | 1,899,129                     | 376                                    | 483,234                           |                                |  | 5,328                                | 12,322                        |
| PACIFIC IS.  | 7                                   | 3,292                             | 22,201                        | 1,973                                  | 13,305                            |                                |  | 418                                  | 298                           |
| ASIAN DCs  | 3,002                               | 2,694                             | 8,087,887                     | 900                                    | 2,700,694                         | 6.8                            | 4.1                                    | 127,545                              | 213,169                       |
| ASIA-PACIFIC   | 3,172                               | 3,556                             | 11,278,502                    | 2,546                                  | 8,075,145                         |                                |  | 207,253                              | 340,709                       |
| INDIAN OCEAN   | 15                                  | 1,611                             | 24,724                        | 503                                    | 7,717                             |                                |  | 49                                   | 306                           |
| USPACOM  | 3,036                               | 3,623                             | 11,000,737                    | 2,638                                  | 8,010,071                         |                                |  | 206,057                              | 339,563                       |
| WORLD  | 5,664                               | 5,858                             | 33,176,774                    | 4,917                                  | 27,850,194                        |                                |  | 688,896                              | 870,723                       |
| MEMO:  |                                     |                                   |                               |  |                                   |                                |  |                                      |                               |
| ASEAN(7)   | 418                                 | 4,105                             | 1,715,471                     | 1,440                                  | 601,816                           |                                |  | 48,327                               | 70,733                        |
| MEXICO   | 91.831                              | 6,400                             | 587,718                       | 3,317                                  | 304,596                           | 4.5                            | 20.4                                   | 71,378                               | 85,830                        |
| CHILE  | 14.225                              | 9,520                             | 135,422                       | 4,158                                  | 59,151                            | 5.5                            | 6.0                                    | 4,375                                | 2,299                         |
| APEC (18)  | 2,166                               | 8,162                             | 17,680,792                    | 7,188                                  | 15,572,010                        |                                |  | 428,453                              | 582,760                       |
| EUROPEAN UNION   | 350.081                             | 19,014                            | 6,656,405                     | 21,277                                 | 7,448,551                         | 2.6                            | 1.9                                    | 140,803                              | 157,519                       |
| MID. EAST  | 212.675                             | 5,300                             | 1,127,179                     | 3,462                                  | 736,271                           | 4.1                            | 22.3                                   | 24,763                               | 21,026                        |
| W. HEMIS. DEVEL  | 466.320                             | 5,670                             | 2,644,251                     | 3,312                                  | 1,544,495                         | 5.2                            | 13.7                                   | 134,231                              | 139,406                       |

**Table 2**  
**ASIA-PACIFIC MERCHANDISE TRADE - 1996**

(\$ MILLIONS, U.S.)

| Economy<br><i>Source: IMF,<br/>Direction of Trade Statistics</i> | LISTED ECONOMY        |             | UNITED STATES        |           | JAPAN                |           | LISTED ECONOMY     |         |
|--|-----------------------|-------------|----------------------|-----------|----------------------|-----------|--------------------|---------|
|  | EXPORTS               | IMPORTS     | EXPORTS              | IMPORTS   | EXPORTS              | IMPORTS   | EXPORTS            | IMPORTS |
|  | TO/FROM THE WORLD     |             | TO/FROM LISTED ECON. |           | TO/FROM LISTED ECON. |           | TO/FROM ASIAN DEV. |         |
| <b>ASIAN DEVELOPING</b>  | \$975,537             | \$1,044,382 | \$119,906            | \$199,678 | \$181,491            | \$131,695 | 394758             | 371261  |
| 1 AFGHANISTAN *  |                       |             | 17                   | 18        |                      |           |                    |         |
| 2 BANGLADESH   | 3,350                 | 7,074       | 210                  | 1423      | 347                  | 143       | 242                | 3822    |
| 3 BHUTAN   |                       |             |                      |           |                      |           |                    |         |
| 4 BRUNEI   | 2329                  | 4689        | 375                  | 51        | 132                  | 1396      | 462                | 2480    |
| 5 CHINA,PR   | 151,093               | 138,822     | 11978                | 54409     | 21827                | 40405     | 56420              | 48705   |
| 6 FIJI   | 715                   | 885         | 28                   | 84        | 37                   | 66        | 52                 | 188     |
| 7 FR. POLYNESIA  | 150                   | 811         | 88                   | 18        | 25                   | 105       | 13                 | 35      |
| 8 GUAM   | 68                    | 463         |                      |           |                      |           | 3                  | 235     |
| 9 HONGKONG   | 180,526               | 198,551     | 13956                | 10262     | 25364                | 2577      | 85279              | 123188  |
| 10 INDIA   | 34,407                | 40,090      | 3318                 | 6528      | 2436                 | 2852      | 8400               | 7591    |
| 11 INDONESIA   | 48,059                | 42,945      | 3965                 | 8743      | 9059                 | 15223     | 12665              | 11727   |
| 12 CAMBODIA  | 332                   | 1,666       | 21                   | 5         | 56                   | 7         | 181                | 1425    |
| 13 KIRIBATI  | 14                    | 99          | 4                    | 2         | 3                    | 3         | 6                  | 7       |
| 14 KOREA,S   | 130,526               | 150,370     | 26583                | 23297     | 29369                | 15980     | 49288              | 25144   |
| 15 LAOS  | 333                   | 639         | 4                    | 18        | 39                   | 24        | 217                | 521     |
| 16 MACAU/MACAO   | 1,975                 | 1,979       | 30                   | 897       | 83                   | 47        | 422                | 1346    |
| 17 MALAYSIA  | 78,426                | 77,797      | 8521                 | 18331     | 15341                | 11762     | 36642              | 27138   |
| 18 MALDIVES  | 129                   | 422         | 2                    | 13        | 7                    | 10        | 53                 | 227     |
| 19 MARSHALL IS.  |                       |             |                      |           |                      |           |                    |         |
| 20 MICRONESIA, F.S.  |                       |             |                      |           |                      |           |                    |         |
| 21 MONGOLIA  | 377                   | 544         | 4                    | 33        | 60                   | 89        | 117                | 113     |
| 22 BURMA   | 1274                  | 2482        | 32                   | 116       | 254                  | 103       | 761                | 1884    |
| 23 NAURU   | 34                    | 26          |                      |           | 1                    | 3         | 7                  | 2       |
| 24 NEPAL   | 346                   | 645         | 8                    | 131       | 65                   | 2         | 44                 | 417     |
| 25 N.CALEDONIA   | 509                   | 998         | 29                   | 69        | 33                   | 172       | 41                 | 98      |
| 26 PAKISTAN *  | 9,299                 | 12,150      | 1277                 | 1349      | 1157                 | 578       | 2175               | 2532    |
| 27 PALAU   |                       |             |                      |           |                      |           |                    |         |
| 28 PNG   | 2561                  | 1676        | 59                   | 91        | 154                  | 606       | 527                | 363     |
| 29 PHILIPPINES   | 20,543                | 31,756      | 6125                 | 8496      | 8397                 | 4511      | 5285               | 9493    |
| 30 SAMOA,AM  | 5                     | 58          |                      |           |                      |           |                    |         |
| 31 SINGAPORE   | 125,118               | 131,506     | 16686                | 20648     | 20800                | 7332      | 64145              | 48940   |
| 32 SOL.IS  | 206                   | 161         | 7                    | 2         | 15                   | 114       | 46                 | 48      |
| 33 SRI LANKA   | 4,097                 | 5,028       | 211                  | 1477      | 401                  | 273       | 352                | 2502    |
| 34 THAILAND  | 55,789                | 73,484      | 7211                 | 11798     | 18301                | 10266     | 20538              | 20686   |
| 35 TONGA   | 21                    | 73          | 6                    | 4         | 4                    | 10        | 1                  | 2       |
| 36 TUVALU  | 2                     | 5           |                      |           |                      |           |                    |         |
| 37 VANUATU   | 29                    | 161         | 1                    | 1         | 69                   | 9         | 3                  | 21      |
| 38 VIETNAM   | 6,933                 | 13,668      | 616                  | 342       | 1137                 | 2012      | 1768               | 8145    |
| 39 W. SAMOA  | 65                    | 174         | 12                   | 1         | 24                   |           | 3                  | 23      |
| 40 TAIWAN  | 115,953               | 101,276     | 18413                | 31023     | 25986                | 14968     | 47256              | 21429   |
| <b>INDUSTRIAL CTYS</b>   |                       |             |                      |           |                      |           |                    |         |
| 41 US  | 622,945               | 817,785     |                      |           | 113174               | 79897     | 119906             | 199678  |
| 42 CANADA *  | 200,146               | 187,042     | 132584               | 159746    | 5124                 | 10127     | 8324               | 14321   |
| 43 JAPAN   | 411,242               | 349,508     | 67536                | 117963    |                      |           | 181491             | 131695  |
| 44 AUSTRALIA   | 60,967                | 67,666      | 11992                | 4127      | 7411                 | 14228     | 25796              | 17400   |
| 45 NEW ZEALAND   | 14,343                | 14,709      | 1727                 | 1608      | 1675                 | 2453      | 3721               | 2417    |
| <b>OTHER COUNTRIES</b>   |                       |             |                      |           |                      |           |                    |         |
| 46 RUSSIA *  | 81,438                | 43,318      | 3340                 | 3745      | 1022                 | 3922      | 8335               | 2866    |
| 47 N. KOREA  | 1,095                 | 2,238       | 1                    |           | 226                  | 291       | 251                | 787     |
| 48 COMOROS   | 14                    | 168         |                      | 6         | 1                    |           |                    | 7       |
| 49 MADAGASCAR  | 617                   | 658         | 12                   | 48        | 28                   | 39        | 19                 | 114     |
| 50 MAURITIUS   | 1573                  | 2193        | 25                   | 230       | 82                   | 17        | 39                 | 653     |
| 51 SEYCHELLES  | 169                   | 339         | 103                  | 3         | 8                    | 3         | 14                 | 54      |
| <b>SUMMARY</b>   | * Not in USPACOM area |             |                      |           |                      |           |                    |         |
| 4 NIE'S  | 552,123               | 581,703     | 75,638               | 85,230    | 101,519              | 40,857    | 245,968            | 218,701 |
| SE ASIA(w/o Singapore)   | 212,744               | 246,644     | 26,838               | 47,784    | 52,462               | 45,201    | 77,758             | 81,615  |
| S. ASIA  | 52,902                | 67,891      | 5,075                | 11,055    | 4,667                | 3,961     | 12,027             | 18,975  |
| PACIFIC IS.  | 4,379                 | 5,590       | 234                  | 272       | 365                  | 1,088     | 702                | 1,022   |
| ASIAN DCs  | 975,537               | 1,044,382   | 119,906              | 199,678   | 181,491              | 131,695   | 394,758            | 371,261 |
| <b>ASIA-PACIFIC</b>  | 1,463,184             | 1,478,503   | 201,162              | 323,376   | 190,803              | 148,667   | 606,017            | 523,560 |
| INDIAN OCEAN   | 2,502                 | 3,780       | 142                  | 300       | 126                  | 69        | 125                | 1,055   |
| <b>USPACOM</b>   | 1,456,387             | 1,470,133   | 200,010              | 322,309   | 189,772              | 148,158   | 603,967            | 522,083 |
| <b>WORLD</b>   | 5,265,800             | 5,401,000   | 622,945              | 817,785   | 411,242              | 349,508   | 974,600            | 907,800 |
| <b>OTHER:</b>  |                       |             |                      |           |                      |           |                    |         |
| ASEAN(7)   | 337,197               | 375,845     | 43,499               | 68,409    | 73,167               | 52,502    | 141,505            | 128,609 |
| MEXICO   | 95,991                | 98,411      | 56,761               | 74,111    | 3,658                | 1,885     | 1094               | 5155    |
| CHILE  | 15,396                | 17,353      | 4,132                | 2,581     | 841                  | 2,852     | 2,622              | 1,819   |
| APEC (18)  | 2,331,953             | 2,505,346   | 388,604              | 547,285   | 306,613              | 236,468   | 721,461            | 711,778 |
| EUROPEAN UNION   | 2,041,600             | 1,953,200   | 127,520              | 147,467   | 63,136               | 49,474    | 141,800            | 156,700 |
| MID. EAST  | 190,103               | 175,328     | 23,080               | 19,874    | 10,599               | 35,236    | 49,325             | 27,882  |
| W. HEMIS. DEVEL.   | 260,013               | 305,441     | 109,417              | 126,191   | 16,794               | 11,184    | 13,847             | 24,880  |

**Table 3**  
**U.S. DIRECT INVESTMENT POSITION ABROAD**

|                         | \$ MILLIONS |         |         |         |         |         |         |         |         |         |         |         |
|-------------------------|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Economy                 | 85          | 86      | 87      | 88      | 89      | 90      | 91      | 92      | 93      | 94      | 95      | 96      |
| <b>ASIAN DEVELOPING</b> | 15330       | 16577   | 17010   | 18528   | 20558   | 22942   | 30338   | 33,129  | 39233   | 47876   | 57581   | 66521   |
| 1 AFGHANISTAN *         |             |         |         |         |         |         |         |         |         |         |         |         |
| 2 BANGLADESH            |             | 10      | 12      | 13      | 6       | 7       |         |         |         |         |         |         |
| 3 BHUTAN                |             |         |         |         |         |         |         |         |         |         |         |         |
| 4 BRUNEI                |             | -29     | -18     | -18     | 17      | 26      | 33      | 42      |         |         |         |         |
| 5 CHINA,PR              | 311         | 167     | 207     | 307     | 436     | 356     | 431     | 563     | 933     | 1656    | 2127    | 2883    |
| 6 FIJI                  |             |         | 0       | 0       | 1       | 1       | 1       | 1       |         |         |         |         |
| 7 FR. POLYNESIA         | 3           | 3       | 4       | 4       | 9       | 21      | 27      | 37      |         |         |         |         |
| 8 GUAM                  |             |         |         |         |         |         |         |         |         |         |         |         |
| 9 HONGKONG              | 3295        | 3912    | 4389    | 5240    | 5412    | 5994    | 6516    | 8693    | 10177   | 13018   | 14206   | 16022   |
| 10 INDIA                | 386         | 421     | 439     | 436     | 427     | 368     | 410     | 484     | 611     | 783     | 838     | 1139    |
| 11 INDONESIA            | 4434        | 3217    | 3070    | 2921    | 2771    | 3175    | 3783    | 4384    | 4770    | 4885    | 6607    | 7571    |
| 12 CAMBODIA             |             |         |         |         |         |         | 55      | 42      |         |         |         |         |
| 13 KIRIBATI             |             |         |         |         |         |         |         |         |         |         |         |         |
| 14 KOREA,S              | 743         | 782     | 1178    | 1501    | 2370    | 2677    | 2862    | 2912    | 3124    | 4081    | 5169    | 5510    |
| 15 LAOS                 |             |         |         |         |         |         |         |         |         |         |         |         |
| 16 MACAU/MACAO          |             |         | 0       | 0       | 13      | 13      | 0       |         |         |         |         |         |
| 17 MALAYSIA             | 1141        | 1021    | 952     | 1135    | 1263    | 1513    | 1711    | 1596    | 1988    | 2343    | 4200    | 5277    |
| 18 MALDIVES             |             |         |         |         |         |         |         |         |         |         |         |         |
| 19 MARSHALL IS.         |             |         | 0       | 0       | 2       | 2       | 3       | 4       |         |         |         |         |
| 20 MICRONESIA, F.S.     |             |         |         |         |         |         |         |         |         |         |         |         |
| 21 MONGOLIA             |             |         |         |         |         |         |         |         |         |         |         |         |
| 22 BURMA                |             |         | 0       | 0       | 0       | 0       | 0       |         |         |         |         |         |
| 23 NAURU                |             |         |         |         |         |         |         |         |         |         |         |         |
| 24 NEPAL                |             |         |         |         |         |         |         |         |         |         |         |         |
| 25 N. CALEDONIA         |             |         |         |         |         |         |         |         |         |         |         |         |
| 26 PAKISTAN *           | 104         | 109     | 161     | 186     | 177     | 184     | 187     | 245     |         |         |         |         |
| 27 PALAU                |             |         |         |         | 2       | 3       | 4       | 5       |         |         |         |         |
| 28 PNG                  | 140         | 147     | 151     | 193     | 54      | 43      | -33     | -4      |         |         |         |         |
| 29 PHILIPPINES          | 1011        | 1299    | 1396    | 1513    | 1107    | 1355    | 1377    | 1666    | 1945    | 2324    | 2531    | 3349    |
| 30 SAMOA,AM             |             |         |         |         |         |         |         |         |         |         |         |         |
| 31 SINGAPORE            | 1884        | 2256    | 2384    | 2311    | 2998    | 3183    | 8294    | 6715    | 8867    | 10310   | 12689   | 14150   |
| 32 SOL.IS.              |             |         |         |         |         |         |         |         |         |         |         |         |
| 33 SRI LANKA            | 11          | 13      | 11      | 13      | 10      | 12      | 7       | 9       |         |         |         |         |
| 34 THAILAND             | 1054        | 1078    | 1274    | 1132    | 1511    | 1789    | 2038    | 2594    | 2947    | 3741    | 4315    | 5254    |
| 35 TONGA                | 2           | 2       | 3       | 3       | 2       | 4       | 4       | 4       |         |         |         |         |
| 36 TUVALU               |             |         |         |         |         |         |         |         |         |         |         |         |
| 37 VANUATU              |             |         |         |         | 1       | 1       | 1       | 1       |         |         |         |         |
| 38 VIETNAM              |             |         | 0       | 0       | 0       | 0       | 0       |         |         |         |         |         |
| 39 W. SAMOA             |             | 0       | 0       | 1       | 1       | 1       | 1       | 1       |         |         |         |         |
| 40 TAIWAN               | 747         | 1078    | 1372    | 1621    | 1968    | 2214    | 2626    | 2827    | 3128    | 3878    | 4210    | 4509    |
| <b>INDUSTRIAL CTYS</b>  |             |         |         |         |         |         |         |         |         |         |         |         |
| 41 US                   |             |         |         |         |         |         |         |         |         |         |         |         |
| 42 CANADA *             | 47106       | 50629   | 57783   | 62656   | 63948   | 69105   | 68853   | 68690   | 69612   | 74987   | 85441   | 91587   |
| 43 JAPAN                | 9246        | 11472   | 15684   | 18009   | 19911   | 22511   | 24938   | 26591   | 31184   | 36677   | 38406   | 39539   |
| 44 AUSTRALIA            | 8427        | 9340    | 11363   | 12823   | 14368   | 14997   | 15795   | 16928   | 19054   | 19900   | 25003   | 28769   |
| 45 NEW ZEALAND          | 565         | 598     | 743     | 833     | 1062    | 3099    | 2916    | 3314    | 3090    | 3622    | 4845    | 5519    |
| <b>OTHER COUNTRIES</b>  |             |         |         |         |         |         |         |         |         |         |         |         |
| 46 RUSSIA *             |             | 0       | 0       | 0       | 4       | 6       | 9       |         |         |         |         |         |
| 47 N. KOREA             |             |         |         |         |         |         |         |         |         |         |         |         |
| 48 COMOROS              |             |         |         |         |         |         |         |         |         |         |         |         |
| 49 MADAGASCAR           | 30          |         |         | 13      | 5       | 6       | 4       |         |         |         |         |         |
| 50 MAURITIUS            | 3           | 4       | 3       | 4       | 3       | 3       | 3       | 3       |         |         |         |         |
| 51 SEYCHELLES           |             |         |         |         |         |         |         |         |         |         |         |         |
| <b>SUMMARY</b>          |             |         |         |         |         |         |         |         |         |         |         |         |
| 4 NIE'S                 | 6,669       | 8,028   | 9,323   | 10,673  | 12,748  | 14,068  | 20,298  | 21,147  | 25,296  | 31,287  | 36,274  | 40,191  |
| SE ASIA(w/o Singapor    | 7,640       | 6,586   | 6,674   | 6,683   | 6,669   | 7,858   | 8,997   | 10,324  | 11,650  | 13,293  | 17,653  | 21,451  |
| S. ASIA                 | 501         | 553     | 623     | 648     | 620     | 571     | 604     | 738     | 611     | 783     | 838     | 1,139   |
| PACIFIC IS.             | 145         | 152     | 158     | 201     | 72      | 76      | 8       | 49      | 0       | 0       | 0       | 0       |
| ASIAN DCs               | 15,330      | 16,577  | 17,010  | 18,528  | 20,558  | 22,942  | 30,338  | 33,129  | 39,233  | 47,876  | 57,581  | 66,521  |
| ASIA-PACIFIC            | 33,568      | 37,987  | 44,800  | 50,193  | 55,899  | 63,549  | 73,987  | 79,962  | 92,561  | 108,075 | 125,834 | 140,402 |
| INDIAN OCEAN            | 33          | 4       | 3       | 17      | 8       | 9       | 7       | 3       | 0       | 0       | 0       | 0       |
| USPACOM                 | 33,497      | 37,882  | 44,642  | 50,024  | 55,730  | 63,374  | 73,807  | 79,720  | 92,561  | 108,075 | 125,834 | 140,402 |
| <b>WORLD</b>            | 229,748     | 259,562 | 307,983 | 326,900 | 373,436 | 424,086 | 450,196 | 502,063 | 559,733 | 621,044 | 717,554 | 796,494 |
| <b>OTHER:</b>           |             |         |         |         |         |         |         |         |         |         |         |         |
| ASEAN(7)                | 9,524       | 8,842   | 9,058   | 8,994   | 9,667   | 11,041  | 17,236  | 16,997  | 20,517  | 23,603  | 30,342  | 35,601  |
| MEXICO                  | 5,070       | 4,750   | 4,997   | 5,694   | 7,079   | 9,398   | 11,570  | 13,730  | 15,229  | 15,714  | 15,980  | 18,747  |
| CHILE                   | 85          | 224     | 224     | 691     | 1,018   | 1,368   | 1,555   | 2,544   | 2,847   | 4,384   | 5,878   | 6,745   |
| APEC (18)               | 85,259      | 91,941  | 107,149 | 118,562 | 127,293 | 142,803 | 155,265 | 163,785 | 178,895 | 201,520 | 231,607 | 255,431 |
| EUROPEAN UNION          | 81,337      | 98,472  | 120,066 | 126,502 | 149,975 | 177,642 | 188,710 | 210,164 | 235,402 | 251,149 | 315,112 | 348,391 |
| MID. EAST               | 4,811       | 4,590   | 4,589   | 4,589   | 3,806   | 3,973   | 4,715   | 5,759   | 6,573   | 6,794   | 7,669   | 8,743   |
| W. HEMIS. DEVEL.        | 27,901      | 34,790  | 44,905  | 49,283  | 51,041  | 71,593  | 77,342  | 91,307  | 101,601 | 112,226 | 128,252 | 144,209 |
| EUROPE                  | 105371      | 120724  | 150439  | 157077  | 175213  | 211194  | 224554  | 248744  | 285735  | 320135  | 380994  | 399632  |

**Table 4**  
**U.S. AID TO ASIA-PACIFIC REGION**

| Economy                 | TOTAL U.S. ASSISTANCE (\$K) |            |            |            |            |            |
|-------------------------|-----------------------------|------------|------------|------------|------------|------------|
|                         | 1992                        | 1993       | 1994       | 1995       | 1996       | 1997 Appo  |
| 1 AFGHANISTAN           | 81,200                      | 35,750     | 1,995      | 12,390     | 15,200     | 13,600     |
| 2 BANGLADESH            | 142,362                     | 124,514    | 125,073    | 92,829     | 54,940     | 68,322     |
| 3 BHUTAN                | 878                         | 430        |            | 194        |            |            |
| 4 BRUNEI                |                             |            |            |            |            |            |
| 5 CHINA                 |                             | 581        | 429        | 624        | 696        | 891        |
| 6 FIJI                  | 1,859                       | 1,727      | 1,910      | 1,606      | 1,457      | 804        |
| 7 FRENCH POLYNESIA      |                             |            |            |            |            |            |
| 8 GUAM                  |                             |            |            |            |            |            |
| 9 HONG KONG             |                             |            |            |            |            |            |
| 10 INDIA                | 187,138                     | 180,921    | 154,327    | 161,879    | 157,532    | 139,618    |
| 11 INDONESIA            | 54,025                      | 54,918     | 22,917     | 58,816     | 33,112     | 42,100     |
| 12 CAMBODIA             | 24,516                      | 27,000     | 29,597     | 42,388     | 28,903     | 36,500     |
| 13 KIRIBATI             | 437                         | 433        | 489        | 472        | 507        | 589        |
| 14 KOREA                | 800                         | 270        | 21         | 10         | 9          | 25         |
| 15 LAOS                 | 3,180                       | 2,050      | 2,000      | 2,200      | 2,000      | 2,500      |
| 16 MACAO                |                             |            |            |            |            |            |
| 17 MALAYSIA             |                             |            | 318        | 504        | 613        | 600        |
| 18 MALDIVES             | 95                          | 70         |            | 50         | 80         | 100        |
| 19 MARSHALL ILS.        | 530                         | 619        | 667        |            |            |            |
| 20 MICRONESIA, FED.ST.  | 1,651                       | 1,676      | 1,885      | 2,193      | 1,631      | 1,587      |
| 21 MONGOLIA             | 15,752                      | 11,345     | 7,922      | 12,332     | 5,062      | 11,381     |
| 22 MYANMAR (BURMA)      |                             | 1,000      |            | 100        |            |            |
| 23 NAURU                |                             |            |            |            |            |            |
| 24 NEPAL                | 19,198                      | 17,890     | 19,218     | 17,046     | 26,185     | 22,168     |
| 25 NEW CALEDONIA        |                             |            |            |            |            |            |
| 26 PAKISTAN             | 3,584                       | 4,200      | 9,608      | 17,121     | 6,493      | 2,500      |
| 27 PALAU                |                             |            |            |            |            |            |
| 28 PAPUA NEW GUINEA     | 1,681                       | 2,031      | 1,902      | 1,660      | 1,653      | 2,137      |
| 29 PHILIPPINES          | 252,936                     | 137,569    | 62,817     | 52,871     | 43,252     | 51,884     |
| 30 SAMOA, AM            |                             |            |            |            |            |            |
| 31 SINGAPORE            | 15                          | 20         | 10         | 20         | 20         |            |
| 32 SOLOMON ISLANDS      | 967                         | 903        | 1,082      | 1,327      | 1,190      | 1,395      |
| 33 SRI LANKA            | 65,996                      | 56,599     | 38,636     | 13,211     | 12,479     | 3,620      |
| 34 THAILAND             | 8,131                       | 15,293     | 12,753     | 5,876      | 6,364      | 5,943      |
| 35 TONGA                | 745                         | 796        | 1,037      | 1,009      | 1,008      | 1,187      |
| 36 TUVALU               | 47                          | 51         |            |            |            |            |
| 37 VANUATU              | 162                         | 324        | 538        | 50         | 743        | 912        |
| 38 VIET NAM             |                             |            | 688        |            |            |            |
| 39 SAMOA                | 944                         | 996        | 1,278      | 48         | 1,144      | 1,136      |
| 40 CHINESE TAIPEI       |                             |            |            |            |            |            |
| 41 COOK ISLANDS         | 104                         | 128        |            |            |            |            |
| NIUE                    |                             |            |            |            |            |            |
| NORTHERN MARIANAS IS    |                             |            |            |            |            |            |
| OCEANIA UNALLOCATED     |                             |            |            |            |            |            |
| TOKELAU                 |                             |            |            |            |            |            |
| WALLIS & FUTUNA         |                             |            |            |            |            |            |
| TIMOR                   |                             |            |            |            |            |            |
| FAR EAST ASIA UNALL.    |                             |            |            |            |            |            |
| STH & CENTRAL ASIA UN.  |                             |            |            |            |            |            |
| KOREA, DEM.             |                             |            |            |            | 6,287      |            |
| COMOROS                 | 2,721                       | 772        | 777        | 1,424      | 118        | 75         |
| MADAGASCAR              | 42,644                      | 41,353     | 32,380     | 29,275     | 19,549     | 20,851     |
| MAURITIUS               | 443                         | 75         |            | 64         |            | 25         |
| SEYCHELLES              | 3,723                       | 1,756      | 414        | 373        | 31         | 75         |
| OTHER ASIAN AID:        |                             |            |            |            |            |            |
| AsDB                    |                             |            |            |            |            |            |
| AsDB SPECIAL FUNDS      |                             |            |            |            |            |            |
| ASIA                    |                             |            |            |            |            |            |
| OCEANIA                 |                             |            |            |            |            |            |
| WORLD MULTILATERAL      |                             |            |            |            |            |            |
| WORLD BILATERAL         |                             |            |            |            |            |            |
| ASEAN                   | 3,644                       | 2,450      | 2,678      | 1,955      |            |            |
| S.PACIFIC               | 18,366                      | 21,670     | 14,000     | 14,000     | 14,000     | 14,000     |
| ASIA REGIONAL           | 31,325                      | 50,795     | 34,717     | 32,176     | 2,240      |            |
| S.E. ASIA CONTINGENCY   | 3,855                       | 28,500     | 7,040      | 4,250      |            |            |
| ASIA BILATERAL TOTAL    | 926,123                     | 783,519    | 591,123    | 582,343    | 444,498    | 446,525    |
| BILATERAL SUMMARY       |                             |            |            |            |            |            |
| AFRICA                  | 1,464,206                   | 1,330,619  | 1,380,944  | 1,292,781  | 1,057,218  | 980,339    |
| ASIA                    | 926,123                     | 783,519    | 557,552    | 582,343    | 444,498    | 446,525    |
| NEAR EAST + N.AFRICA    | 5,398,875                   | 5,399,952  | 5,029,617  | 5,386,366  | 5,311,395  | 5,302,055  |
| EUROPE                  | 1,163,916                   | 767,933    | 770,233    | 684,975    | 1,170,002  | 1,283,037  |
| NIS                     | 132,077                     | 503,833    | 1,387,620  | 731,467    | (see Eur)  | (see Eur)  |
| LAT. AMER./CAR.         | 1,365,877                   | 1,328,373  | 806,004    | 748,110    | 577,365    | 648,543    |
| OTHER BILATERAL         | 1,729,435                   | 1,430,446  | 605,222    | 2,044,973  | 2,961,482  | 2,851,926  |
| TOTAL BILATERAL         | 12,180,509                  | 11,544,675 | 10,537,192 | 11,471,015 | 11,521,960 | 11,512,425 |
| MULTILATERAL ORGS       | 1,796,835                   | 1,803,419  | 1,737,488  | 2,065,000  | 1,384,513  | 1,291,855  |
| MILITARY (incl. GRANTS) | 3,397,182                   |            | 2,316,382  | 2,524,685  | 3,267,743  | 3,209,475  |
| TOTAL ECON & MIL        | 13,351,258                  | 13,348,094 | 12,274,680 | 12,837,015 | 12,783,473 | 12,686,280 |

Source: USAID, Congressional Presentation  
Summary Tables (series)

**Table 5**  
**ASIA-PACIFIC DEFENSE SPENDING**

| Economy                 | 1985      | 1986      | 1987      | 1988      | 1989      | 1990      | 1991      | 1992      | 1993    | 1994    | 1995    | Avg Ann. Growth | 1995 %DEF/GNP | Armed Forces (K) |
|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|---------|---------|-----------------|---------------|------------------|
| <b>ASIAN DEVELOPING</b> | 95,808    | 95,597    | 94,999    | 96,919    | 98,666    | 103,512   | 102,103   | 106,741   | 111,295 | 114,964 | 122,058 | 2.4%            |               | 8,054            |
| 1 AFGHANISTAN *         | 329       | 329       | 329       | 329       | 329       | 356       | 356       | 356       | 356     | 356     | 356     | 1.1%            |               | 20               |
| 2 BANGLADESH            | 336       | 343       | 386       | 362       | 353       | 365       | 336       | 372       | 454     | 486     | 502     | 3.6%            | 1.7%          | 115              |
| 3 BHUTAN                |           |           |           |           |           |           |           |           |         |         |         |                 |               | 5                |
| 4 BRUNEI                | 366       | 610       | 436       | 564       | 465       | 382       | 382       | 469       | 469     | 348     | 269     | -3.7%           | 6.0%          | 5                |
| 5 CHINA,PR              | 53470     | 52140     | 52460     | 53090     | 52370     | 55660     | 53270     | 55390     | 56390   | 58470   | 63510   | 1.5%            | 2.3%          | 2930             |
| 6 FIJI                  | 18        | 17        | 30        | 32        | 38        | 38        | 37        | 34        | 28      | 35      | 32      | 5.3%            | 1.7%          | 4                |
| 7 FR. POLYNESIA         |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 8 GUAM                  |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 9 HONGKONG              |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 10 INDIA                | 6883      | 7300      | 7652      | 7901      | 7892      | 7626      | 7061      | 6991      | 7872    | 8502    | 7831    | 0.9%            | 2.4%          | 1265             |
| 11 INDONESIA            | 2193      | 2313      | 1945      | 1826      | 1868      | 1952      | 2058      | 2110      | 2192    | 2423    | 3398    | 2.9%            | 1.8%          | 280              |
| 12 CAMBODIA             |           |           |           |           |           |           | 78        | 116       | 84      | 84      | 90      |                 | 3.1%          | 90               |
| 13 KIRIBATI             |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 14 KOREA,S              | 8919      | 9430      | 9522      | 10150     | 11190     | 12390     | 11950     | 12740     | 13050   | 14280   | 14410   | 5.2%            | 3.4%          | 655              |
| 15 LAOS                 | 75        | 75        | 75        | 75        | 75        | 75        | 75        | 118       | 115     | 80      | 72      | 2.1%            | 4.2%          | 50               |
| 16 MACAU/MACAO          |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 17 MALAYSIA             | 1402      | 1594      | 1797      | 1141      | 1359      | 1461      | 2021      | 1996      | 2161    | 2303    | 2444    | 5.9%            | 3.0%          | 122              |
| 18 MALDIVES             |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 19 MARSHALL IS.         |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 20 MICRONESIA, F.S.     |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 21 MONGOLIA             | 69        | 78        | 79        | 90        | 83        | 79        | 40        | 21        | 23      | 20      | 20      | -15.8%          | 2.4%          | 21               |
| 22 BURMA                | 1202      | 1158      | 1128      | 972       | 1190      | 1256      | 1500      | 1775      | 1594    | 1741    | 1833    | 5.8%            | 3.9%          | 322              |
| 23 NAURU                |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 24 NEPAL                | 25        | 25        | 30        | 35        | 35        | 35        | 35        | 35        | 35      | 35      | 40      | 3.9%            | 1.1%          | 35               |
| 25 N. CALEDONIA         |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 26 PAKISTAN *           | 2480      | 2699      | 3202      | 3232      | 3213      | 3586      | 3567      | 4083      | 3958    | 4032    | 3740    | 4.5%            | 6.1%          | 587              |
| 27 PALAU                |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 28 PNG                  | 72        | 76        | 74        | 71        | 83        | 115       | 83        | 92        | 133     | 142     | 107     | 6.3%            | 1.4%          | 5                |
| 29 PHILIPPINES          | 693       | 1025      | 1032      | 1260      | 1417      | 1416      | 1360      | 1275      | 1494    | 1402    | 1151    | 4.5%            | 1.5%          | 110              |
| 30 SAMOA,AM             |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 31 SINGAPORE            | 2312      | 2164      | 2207      | 2507      | 2591      | 2421      | 2961      | 3213      | 3274    | 3386    | 3970    | 5.9%            | 4.7%          | 60               |
| 32 SOLIS                |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 33 SRI LANKA            | 238       | 212       | 271       | 417       | 400       | 472       | 499       | 404       | 562     | 554     | 585     | 10.2%           | 4.6%          | 110              |
| 34 THAILAND             | 2832      | 2675      | 2577      | 2522      | 2560      | 2726      | 3008      | 3392      | 3988    | 4069    | 4014    | 5.1%            | 2.5%          | 288              |
| 35 TONGA                |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 36 TUVALU               |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 37 VANUATU              |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 38 VIETNAM (Est.)       | 3129      | 3211      | 2616      | 2021      | 1426      | 831       | 796       | 679       | 563     | 446     | 544     | -19.6%          | 2.6%          | 550              |
| 39 W. SAMOA             |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 40 TAIWAN               | 8765      | 8123      | 7151      | 8322      | 9729      | 10270     | 10630     | 11080     | 12500   | 11770   | 13140   | 5.5%            | 5.0%          | 425              |
| <b>INDUSTRIAL CTYS</b>  |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 41 US                   | 353800    | 374900    | 373000    | 365900    | 364300    | 351900    | 309700    | 328200    | 312000  | 295300  | 277800  | -2.8%           | 3.8%          | 1620             |
| 42 CANADA *             | 9825      | 10190     | 10390     | 10450     | 10380     | 10560     | 9797      | 9871      | 9895    | 9644    | 9077    | -0.8%           | 1.7%          | 70               |
| 43 JAPAN                | 38550     | 39340     | 41380     | 43370     | 45110     | 46820     | 48430     | 49510     | 50070   | 50540   | 50240   | 3.0%            | 1.0%          | 240              |
| 44 AUSTRALIA            | 6798      | 6719      | 7163      | 6466      | 6385      | 6741      | 7425      | 7599      | 8381    | 8567    | 8401    | 2.7%            | 2.5%          | 58               |
| 45 NEW ZEALAND          | 962       | 1028      | 1023      | 1086      | 1065      | 1030      | 705       | 806       | 854     | 720     | 740     | -3.8%           | 1.3%          | 10               |
| <b>OTHER COUNTRIES</b>  |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 46 RUSSIA *             |           |           |           |           |           |           |           | 171200    | 131000  | 95330   | 76000   |                 | 12.4%         | 1395             |
| 47 N. KOREA             | 7209      | 7261      | 7300      | 7291      | 7189      | 6827      | 5525      | 5916      | 5556    | 5638    | 6000    | -3.1%           | 28.6%         | 1040             |
| 48 COMOROS              |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| 49 MADAGASCAR           | 53        | 53        | 51        | 43        | 40        | 37        | 35        | 33        | 39      | 31      | 28      | -6.0%           | 0.9%          | 21               |
| 50 MAURITIUS            | 5         | 4         | 5         | 5         | 7         | 10        | 12        | 13        | 12      | 12      | 14      | 14.2%           | 0.4%          | 1                |
| 51 SEYCHELLES           |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| <b>SUMMARY:</b>         |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| US                      | 353,800   | 374,900   | 373,000   | 365,900   | 364,300   | 351,900   | 309,700   | 328,200   | 312,000 | 295,300 | 277,800 | -2.8%           | 3.8%          | 1,620            |
| JAPAN                   | 38,550    | 39,340    | 41,380    | 43,370    | 45,110    | 46,820    | 48,430    | 49,510    | 50,070  | 50,540  | 50,240  | 3.0%            | 1.0%          | 240              |
| AUS. /NZ                | 7,760     | 7,747     | 8,186     | 7,552     | 7,450     | 7,771     | 8,130     | 8,405     | 9,235   | 9,287   | 9,141   | 2.0%            | 3.8%          | 68               |
| PRC                     | 53,470    | 52,140    | 52,460    | 53,090    | 52,370    | 55,660    | 53,270    | 55,390    | 56,390  | 58,470  | 63,510  | 1.5%            | 2.3%          | 2,930            |
| 4 NIE'S                 | 19,996    | 19,717    | 18,880    | 20,979    | 23,510    | 25,081    | 25,541    | 27,033    | 28,824  | 29,436  | 31,520  | 5.4%            |               | 1,140            |
| SE ASIA(w/o Singapore)  | 10,690    | 11,503    | 10,478    | 9,409     | 9,170     | 8,843     | 9,778     | 10,155    | 11,066  | 11,155  | 11,982  | 0.8%            |               | 1,495            |
| S. ASIA                 | 11,493    | 12,066    | 12,998    | 13,248    | 13,412    | 13,696    | 13,354    | 14,016    | 14,831  | 15,706  | 14,887  | 2.6%            | 3.0%          | 2,459            |
| PACIFIC IS.             | 90        | 93        | 104       | 103       | 121       | 153       | 120       | 126       | 161     | 177     | 139     | 6.0%            |               | 9                |
| ASIAN DCs               | 95,808    | 95,597    | 94,999    | 96,919    | 98,666    | 103,512   | 102,103   | 106,741   | 111,295 | 114,964 | 122,058 | 2.4%            |               | 8,054            |
| ASIA-PACIFIC            | 149,327   | 149,945   | 151,865   | 155,132   | 158,415   | 164,930   | 164,188   | 170,572   | 176,156 | 180,429 | 187,439 | 2.3%            |               | 9,402            |
| INDIAN OCEAN            | 58        | 57        | 56        | 48        | 47        | 47        | 47        | 46        | 51      | 43      | 42      | -2.8%           |               | 22               |
| USPACOM                 | 146,576   | 146,974   | 148,390   | 151,619   | 154,920   | 161,035   | 160,312   | 168,179   | 171,893 | 176,084 | 183,385 | 2.3%            |               | 8,817            |
| WORLD                   | 1,330,800 | 1,359,000 | 1,360,000 | 1,348,700 | 1,304,800 | 1,270,600 | 1,158,900 | 1,047,500 | 956,500 | 900,800 | 864,500 | -4.9%           | 2.8%          | 22,790           |
| <b>OTHERS:</b>          |           |           |           |           |           |           |           |           |         |         |         |                 |               |                  |
| ASEAN(7)                | 12,927    | 13,592    | 12,610    | 11,841    | 11,686    | 11,189    | 12,588    | 13,134    | 14,141  | 14,377  | 15,790  | 1.7%            |               | 1,415            |
| MEXICO                  | 1,457     | 1,472     | 1,609     | 1,263     | 1,290     | 1,215     | 1,351     | 1,505     | 1,642   | 2,042   | 2,321   | 3.8%            | 1.0%          | 175              |
| CHILE                   | 1,125     | 1,030     | 1,346     | 1,286     | 1,187     | 1,327     | 1,362     | 1,218     | 1,857   | 1,877   | 2243    | 6.4%            | 3.8%          | 102              |
| APEC (18)               | 493,541   | 514,829   | 515,112   | 511,274   | 513,349   | 508,386   | 466,493   | 490,466   | 480,350 | 467,283 | 457,235 | -1.0%           |               | 7,155            |
| MID. EAST               | 93,000    | 88,700    | 80,600    | 74,800    | 66,900    | 91,400    | 98,700    | 87,400    | 55,000  | 49,700  | 48,600  | -5.3%           | 7.9%          | 2,319            |
| LATIN AMER.             | 23,600    | 25,900    | 24,500    | 23,900    | 23,800    | 23,700    | 21,600    | 21,400    | 22,700  | 22,300  | 26500   | -0.5%           | 1.7%          | 1,299            |
| WESTERN EUR.            | 230,800   | 231,100   | 234,300   | 230,300   | 232,100   | 234,100   | 230,700   | 220,500   | 213,600 | 208,700 | 200200  | -1.3%           | 2.4%          | 3,181            |
| WORLD                   | 1,330,800 | 1,359,000 | 1,360,000 | 1,348,700 | 1,304,800 | 1,270,600 | 1,158,900 | 1,047,500 | 956,500 | 900,800 | 864500  | -4.9%           | 2.8%          | 22,790           |

\* Not in Pacific Command Area of Responsibility

## APPENDIX C

### GLOSSARY

|                |   |
|----------------|---|
| ACDA           | Arms Control and Disarmament Agency                     |
| ADB            | Asian Development Bank                                  |
| AFTA           | ASEAN Free Trade Agreement (or Area)                    |
| AMG            | Alliance for Mutual Growth                              |
| AOR            | Area of Responsibility                                  |
| APEC           | Asia Pacific Economic Cooperation                       |
| ARF            | ASEAN Regional Forum                                    |
| ASEAN          | Association of Southeast Asian Nations                  |
| BEM            | Big Emerging Market                                     |
| BTU            | British Thermal Units                                   |
| C <sup>3</sup> | Command, control, and communications                    |
| CEA            | Chinese Economic Area (PRC, Hong Kong, Taiwan)          |
| CIA            | Central Intelligence Agency                             |
| CINC           | Commander in Chief                                      |
| CSCAP          | Council for Security Cooperation in the Asia Pacific    |
| EAEC           | East Asian Economic Caucus                              |
| EEZ            | Exclusive Economic Zone                                 |
| EIA            | Energy Information Administration                       |
| ESCAP          | Economic and Social Commission for Asia and the Pacific |
| EU             | European Union (formerly European Community)            |
| EW             | Electronic Warfare                                      |
| GATT           | General Agreement on Tariffs and Trade                  |
| GDP            | Gross Domestic Product                                  |
| GMS            | Greater Mekong Subregional economic cooperation project |
| GNP            | Gross National Product                                  |
| IGM            | International General Meeting                           |
| IISS           | International Institute for Strategic Studies           |
| IMB            | International Maritime Bureau                           |
| IMET           | International Military Education and Training           |
| IMF            | International Monetary Fund                             |
| IMO            | International Maritime Organization                     |
| IMT-GT         | Indonesia-Malaysia-Thailand Growth Triangle             |
| MFN            | Most Favored Nation                                     |
| MMBD           | Million Barrels per Day                                 |
| MMT            | Million Metric Tons                                     |
| NAFTA          | North American Free Trade Agreement                     |
| NATO           | North Atlantic Treaty Organization                      |
| NDU            | National Defense University                             |
| NEACD          | Northeast Asia Cooperation Dialogue                     |
| NGO            | Non-governmental Organization                           |
| NIE            | Newly Industrializing Economy                           |

|           |   |
|-----------|---|
| NIS       | Newly Independent States                              |
| ODA       | Official Development Assistance                       |
| OECD      | Organization for Economic Cooperation and Development |
| OTA       | Office of Technology Assessment, U.S. Congress        |
| PACTAD    | Pacific Trade and Development Conference              |
| PBEC      | Pacific Basin Economic Council                        |
| PECC      | Pacific Economic Cooperation Conference               |
| PMC       | ASEAN Post-Ministerial Conference                     |
| PNG       | Papua New Guinea                                      |
| PPP       | Purchasing Power Parity                               |
| PRC       | Peoples Republic of China                             |
| ROK       | Republic of Korea                                     |
| SAARC     | South Asian Association for Regional Cooperation      |
| SAPTA     | South Asian Preferential Trade Arrangement            |
| SCS       | South China Sea                                       |
| SIJORI    | Singapore-Johor-Riau growth triangle                  |
| SIPRI     | Stockholm International Peace Research Institute      |
| SOM       | Senior Officials Meeting                              |
| SPC       | South Pacific Commission                              |
| SPF       | South Pacific Forum                                   |
| TEU       | Twenty-foot Equivalent Units (shipping)               |
| USAID     | Agency for International Development                  |
| USCINCPAC | Commander in Chief, U.S. Pacific Command              |
| USTR      | U.S. Trade Representative                             |
| WTO       | World Trade Organization                              |